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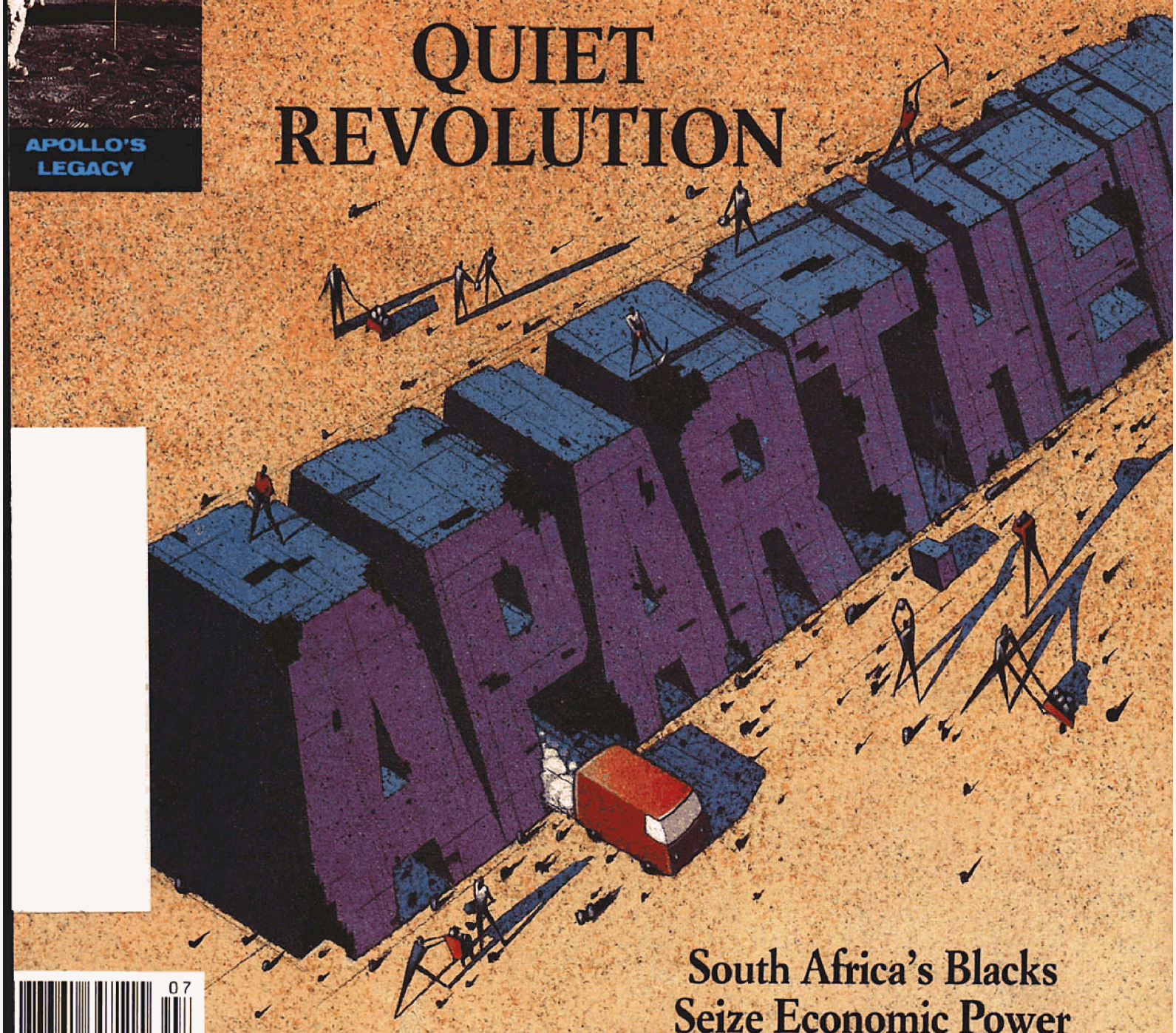


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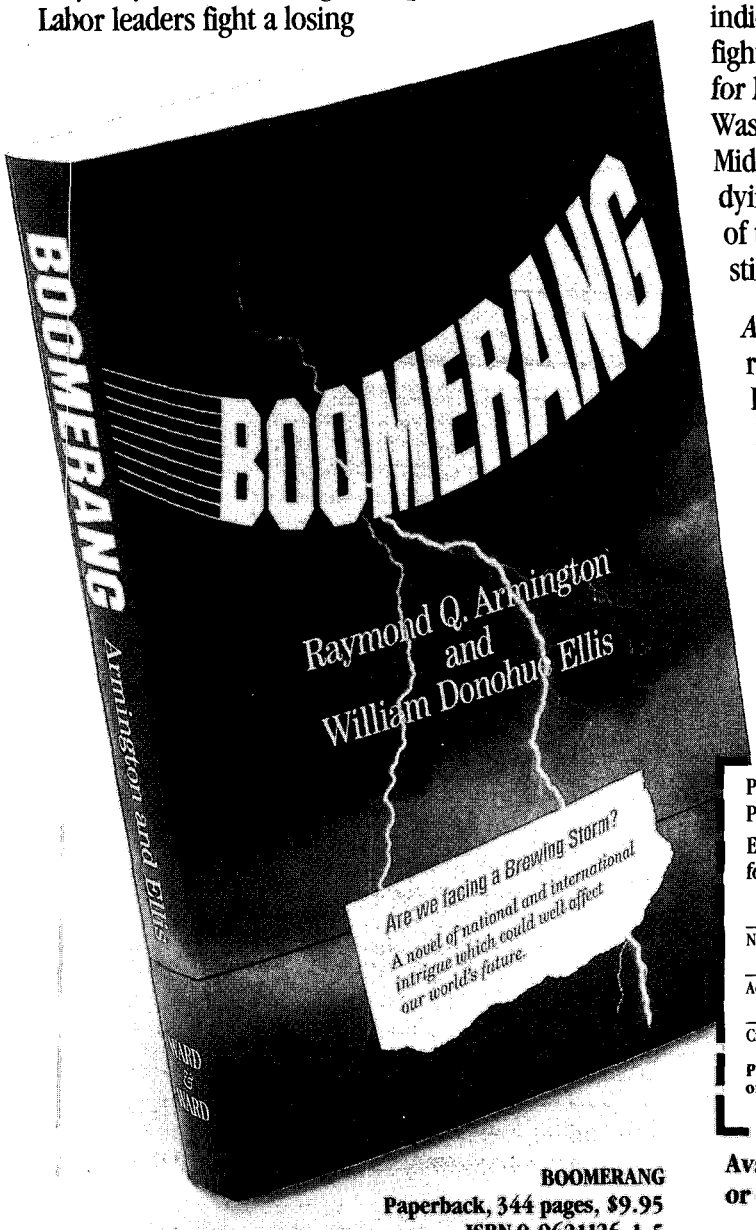
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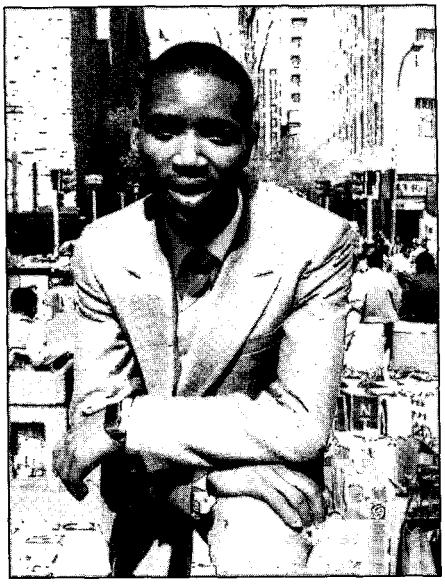

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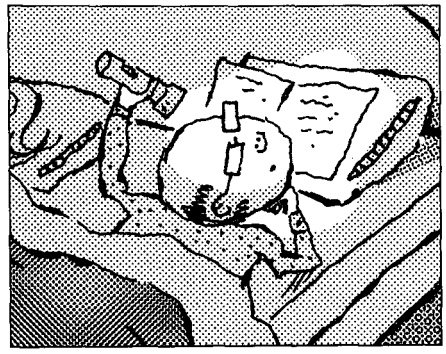


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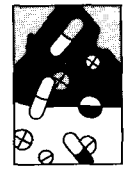


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*Box photo courtesy of National Aeronautics & Space Administration*


**REASON** (ISSN 0048-6906) is published monthly except combined August-September issue by the Reason Foundation, a nonprofit, tax-exempt organization, 2716 Ocean Park Blvd., Suite 1062, Santa Monica, CA 90405. Second-class postage paid at Santa Monica, CA, and additional mailing offices. **POSTMASTER:** Send address changes to REASON, Box 3724, Escondido, CA 92025.


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# LETTERS

## Second Amendment Thoughts

In between the extremist factions of the firearms prohibitionists on one hand and the anarchic NRA lobby on the other lies most of the ambivalent America public. Representing that majority, I would like to point out the common mistake that Craig M. Collins made in his editorial "Why Guns?" (May): that of blurring, even ignoring, the important distinction between gun control and gun prohibition.

The frustrated majority of American citizens wants reasonable and responsible controls within our free market to ensure that firearms are not easily obtained by the wrong people and for the wrong reasons. Waiting periods, profile checks on prospective purchasers, safety-testing requirements, and other measures are known beyond any doubt to save lives without infringing on basic Second Amendment rights—hardly "disarming a free nation."

It bears repeating that freedom must be ever coupled with responsibility. To maintain our constitutional right to own lethal weapons, we must bear the responsibility of curbing the abuses of such a system to the best of our ability.

*Bruce Rockwell*
*Scotts Valley, CA*

PROPONENTS OF GUN CONTROL like to assert that the Founding Fathers merely defended the right to possess muzzle-loading arms—guns distinctly underpowered by today's standards. But when the authors of the Bill of Rights penned the Second Amendment, they were recognizing the individual's right to possess state-of-the-art military arms: not only fast-reloading, caliber .69 smoothbore muskets and handguns, but also that newest, long-range terror of the battlefield, the rifle. Fresh from a bloody war and still apprehensive of the risks of freedom, the newborn nation nevertheless demanded a formal statement of the right to keep and bear the most modern of arms for personal and community defense.

The founders were men of great principle. They didn't tie gun rights to the level of technology then available because they understood that it is neither freedom nor guns of which citizens must beware but the power of the state.

*Tom Burckhalter*
*Lake Bluff, IL*

OUR FOUNDING FATHERS fought a war that they never could have fought if they had not been armed. They gave us an epic document, the Constitution, to protect us forever—not from foreign powers, pirates, thieves or criminals, but from a government they feared could become as abusive as the one they had just fought.

Gun control laws don't work. The man who shot those poor children in Stockton was a prohibited person for many reasons. If present gun laws were enforced, he would not have had any firearm. He was receiving disability for mental problems, so he was prohibited as a mental patient. He had been in court for violence many times, but it was always plea bargained down from a felony conviction. His crime is an indictment of our criminal justice system rather than a call for more gun laws. We need Crime Control, not more Gun Control.

*Ronald P. Grunwald, M.D.*
*Spokane, WA*

## Ouch!

Peter W. Huber's article, "Courting Danger" (April) was particularly interesting to me as a practicing lawyer. Being a classical liberal and a lawyer is somewhat


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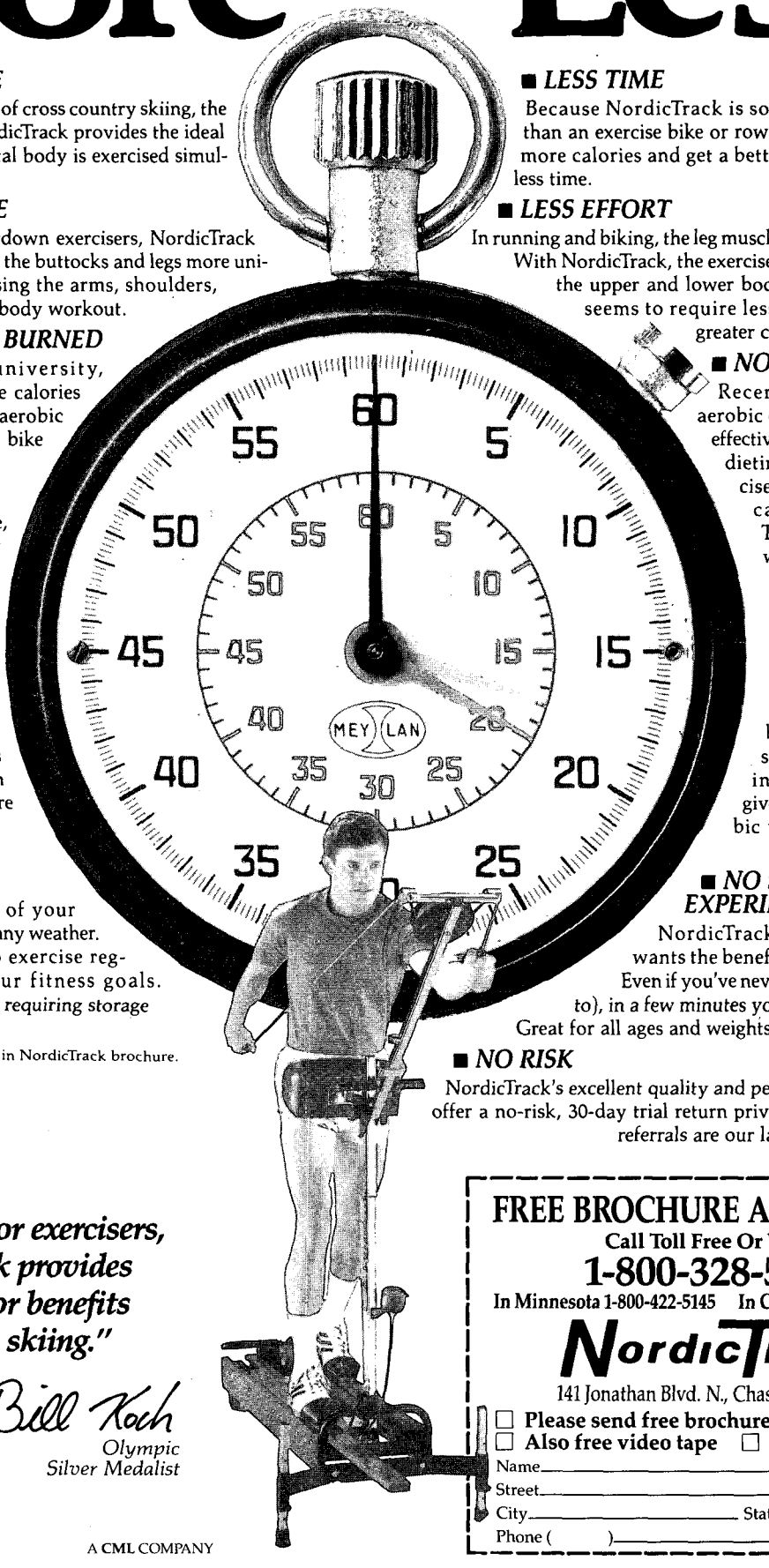


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like being a physician in a concentration camp (especially when practicing real estate law in New York City). One is constantly bombarded by bad laws and surrounded by colleagues who support or prosecute under them.

However, there are some minor and unexpected rewards. Occasionally, while thumbing through legal periodicals, I find a court decision that partially reaffirms my faith in the American legal system. For example, consider the following, which was published in *Case & Comment*, March-April 1989:

> ENEMA—Despite allegations of negligence and strict liability, a federal district court held that the publisher of a textbook was not liable for injuries sustained by a nursing student who, after consulting the textbook, treated herself for constipation by taking an enema consisting of hydrogen peroxide. Jones v. J.B. Lippincott Co., 694 F. Supp. 1216, 15 Media L. R. 2155 (DC Md).

Well, I guess there is some hope for this world.

*Raymond N. Hannigan, Esq.*
*New York, NY*

## NATO Defender

I found several things quite appalling about Doug Bandow's "What Next for NATO?" (April). First, that he should assume that the United States has no interests worth defending in Europe—despite the fact that we have hundreds of billions of capital investment, thousands of businesses, and millions of relative there. Individuals have interests outside their bodies; countries have them outside their borders; one has a right to defend either.

Second, that he should not even deal with *the* strategic issue: that forward deployment is the fastest way to get troops to a battlefront (and our one hope of not having to go nuclear right away).

Third, that he should so fudge and side-step facts—for instance, that as a portion of GNP, U.S. defense spending is near modern lows; that Pentagon weapons counts include not just older Soviet weapons but older NATO ones; that Gorbachev has not cut, but improved, his offensive capability (for example, replacing SS-20s with SS-25s).

And finally, that he ignores Europe's biggest contribution to NATO defense: providing the battlefield.

*E. G. Ross*
*Eugene, OR*

## Now That Makes Sense

I enjoyed reading the editorial "Sharper Images" (April), and I was pleased to be quoted in it. But the quote is actually a misquote. What I really said was that the automobile and *television* (not high-definition television) are the two most important inventions of the 20th century. The automobile gave mobility to people, and television gave mobility to ideas. Somehow that got garbled by *Business Week*, and it's been reappearing everywhere. Murphy's Law is clearly at work!

*Don Ritter*
*Member of Congress*
*15th District, PA*

## Comics Contentions

Despite the recent spate of media interest and energized circulation figures ("The Comics Grow Up" Charles Oliver, May), mainstream comics remain a pathetically small segment of entertainment publishing. The stories they present are, for the most part, not the sophisticated themes of truly adult literature. The virtually exclusive staple of mainstream comics remains the adolescent power fantasy of superheroics.

Unmentioned in Oliver's article are several American comic books and publishers who are truly expanding the boundaries of the medium. At the top of my list is *Love and Rockets*, written and drawn by Gilbert and Jaime Hernandez and published by Fantagraphics Books. The Hernandez brothers draw the characters, themes, and plots from Latino culture, both historical and modern, and examine the gamut of human virtues, evils, and perplexing situations.

Another great comic is *Xenozoic Tales*, published by Kitchen Sink. This series is set 500 years after some natural cataclysm has destroyed human civilization; when the survivors emerge from their hiding places they find the earth's ecology completely transformed. The main character, Jack "Cadillac" Tenrec, is a burly and somewhat superstitious environmentalist, a self-appointed guardian of the new wilderness.

Another excellent comic looks like a super-hero rag but is really a fascinating science fiction story about a man who happens to dress in leotards and is able to obliterate people with focused blasts of fusion energy. The *Nexus* series describes a fully realized galactic civilization, with a variety of sentient species dealing with one another in complex economic/political relationships. *Nexus* was examining the ethics of vigilantism and the corruptive nature of power long before *The Dark Knight* ever saw the light of day.

Many of the new adult comics have a sexually explicit nature, and by far the best of these is *Omaha the Cat Dancer*, the story of an exotic dancer and her graphic-artist boyfriend. But beyond the erotic trappings is a sophisticated story of political intrigue and social hypocrisy.

Comic books, or more generally the graphic-storytelling medium, will only "grow up" when it escapes the crypto-fascist trap of super-heroes and its cultish fan following and begins to reach a general audience with subjects of interest to adults in general.

*Scott Bieser*
*North Hollywood, CA*

*Next month: special Letters section on the abortion debate.*

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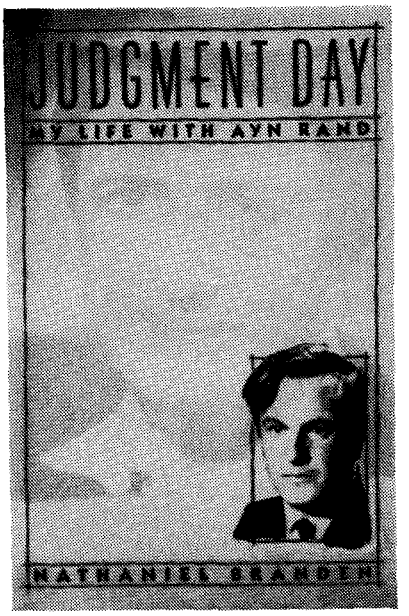


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# WHAT A WIMP

VIRGINIA I. POSTREL

It's true. George Bush is a wimp. A year or so back, that was common wisdom. But a good convention speech, a heroic war record, a bare-knuckles campaign, and a Snoopy-like opponent somehow made the country forget its initial impression of George Bush.

Nah, you started to hear, he's not a wimp. He's just a nice guy. Down-to-earth. Considerate. Writes nice thank you notes. Gives fun White House tours. Great wife. Big, happy family. Cute puppies.

All of that may very well be true. And George Bush may even possess physical courage. But when it comes to policy, Bush is a wimp. He lacks the courage of his convictions or, more likely, he simply lacks the convictions.

Remember cutting the capital gains tax? During the campaign, Bush stood up to relentless demagoguing by the Democrats over that one. He never really defended the idea, but neither did he back down. Until he got elected. Then it was Cave-In City. And when the idea resurfaced recently, it was paired with a gasoline tax increase. Whatever happened to "no new taxes"?

Bush also wimped out on tuition tax credits. Admittedly, he didn't exactly stress them when he was campaigning, but he clearly supported the idea. Then, one day in March, he announced to a bunch of high school students visiting the White House that he'd changed his mind.

"I think everybody should support the public school system, and then, if on top of that, your parents think that they want to shell out in addition to the tax money, tuition money, that's their right, and that should be respected," he said. "But I don't think they should get a break for that." The teachers' unions were ecstatic.

Then there's the minimum wage. The Democrats put forward a bill calling for a substantial increase. With enough votes to sustain a veto, Bush said no. Did he oppose an increase altogether? Of course not. He pushed a smaller increase, with a temporary "training wage."

What's baffling about all these examples is that Bush's strategy—if it can be called that—gives him all the disadvantages of actually taking a stand and none of the advantages. Democrats can effectively attack him for favoring the rich, undermining the public schools, and being stingy and uncompassionate toward the working poor. But instead of pressing his own case, he wimps out.

Of course, every president has to pick his fights. Maybe there's no way to keep the minimum wage where it is, even though everyone admits that raising it puts people out of work. Tuition tax credits are popular with the public but have never gone over terribly well on Capitol Hill. A lower capital gains tax might be good for the economy, but is it worth the political capital? Just because you don't go to the mat on every issue doesn't mean you're a wimp. You have to concentrate on what's most important to you. And Bush's issues are, er, well...

Therein lies the real problem. Bush isn't trying to concentrate his forces. He *has* no forces. His agenda is being set by everyone but George Bush. He simply reacts—to Gorbachev, to homeless activists, to steel makers, to pro- and anti-gun control lobbyists, to Congress, to a thousand pressure groups with a thousand demands. And while Reagan suffered from something of the same problem, he at least kept up the rhetoric and he did care about a few things.

Take, for instance, the Fairness Doctrine. Bush says he'll veto it if Congress passes it again. He probably will—but I suspect that's because Reagan told him he'd never speak to Bush again if he didn't. Certainly, no one expects Bush to appoint Reagan-style deregulators to fill the FCC's several vacancies. Where Bush has stood firm, most notably on income taxes, it's because he adopted rules of behavior from Papa Ron. Again, reaction.

Or consider the MX/Midgetman debate. Forced to decide which missiles to go with, Bush made the most wishy-washy decision possible. He took the *dim sum* approach—a few of these and a few of those. Now, it's theoretically possible to cook up some military argument to justify buying a few of both kinds of missiles. But nobody even tried to hide Bush's real motive: he was taking the wimpy way out.

So what's wrong with wimpiness? Maybe America is ready for a kinder, gentler, less intrusive presidency. In some ways, that's undoubtedly true. It is kind of nice to have an unpretentious guy taking tourists out of the White House line to show them the president's real living quarters.

But you don't have to be wimp to be a nice guy. Good ole Jerry Ford, about whom just about everybody had something good to say, vetoed bills like crazy.

(Sure, he lost the election. But if it hadn't been for the pardon and that silly remark about Poland, he might have pulled it off.) Indeed, if Bush is really such a good guy, he ought to use his enormous personal popularity to push a few programs.

Wimps are dangerous. They don't know what they want. That they can be pushed around is bad enough. But then there is the ever-present danger that they'll take one push too many, suddenly snap, and do something rash to prove their manhood.

As I write, Panama is in crisis. Whatever the United States does or doesn't do will have serious consequences and substantial drawbacks. And George Bush is posing for pictures with his new friend and advisor, Jimmy Carter.

Think about it. And tell me it isn't just a teensy bit scary having a wimp as president.

# PORN IN THE USA

CRAIG M. COLLINS

Los Angeles–area Federal District Judge David V. Kenyon recently holed up with attorneys from the Justice Department to watch *Kneel Before Me, Beyond DeSade,* and a few other X-rated movies purchased at two local video stores. If the judge found these videos obscene, the Justice lawyers could seize the stores and their owner's personal and corporate bank accounts, his office furniture and equipment, and even his home. But Judge Kenyon decided that the movies, which contained scenes of group sex, beatings, bondage, and gang rape in a mental hospital, were not obscene under the Supreme Court's 1973 "community standards" test.

He wasn't intending to insult L.A.'s culture. "The great majority of people in this town would be incensed" by the videos, he admitted, but he concluded that the city is simply too diverse an area to decide beyond a reasonable doubt that community standards were violated.

This case illustrates the difficulty with the Court's efforts to fabricate an obscenity exception to the First Amendment. Perhaps the courts should approach the subject differently. The rare instances in which unwilling recipients are con-


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fronted with obscene material, as well as the claims that obscenity causes moral and social decay, can be resolved not by judicially legislating exceptions to the Constitution but by applying already existing legal principles designed to protect personal and property rights—namely, the tort law of nuisance.

The courts should allow anyone subjected to uninvited printed material or electronic images to seek the same relief now granted anyone subjected to uninvited fumes, noise, heat, or vibration. The law of nuisance has simple requirements. First, the offending material must invade someone's person or property. Second, the material must cause some harm—some provable harm.

There will be hard cases. Is it an invasion if a radio or TV station broadcasts a signal onto your property? Or have you invited it by switching on your TV or radio? Is it an invasion if porno literature is mailed to you, or have you invited it by erecting a mailbox?

Regardless of how these questions are resolved, the law will be the same or better than it is now. The law of nuisance has been part of the common law for hundreds of years and has evolved in a manner eminently consistent with common sense. Whether a porno shop is a nuisance to a neighborhood would depend on the same rules that govern factories belching smoke: the law does not alleviate minimal or hypothetical harms to surrounding property owners (the "live and let live" rule), and it considers whether the establishment is in the middle of a residential neighborhood or on the outskirts of town surrounded by similar businesses (the "locality" rule). But the nuisance approach, unlike the obscenity approach, will likely end the ridiculous effort to harass people who offer video tapes or magazines to willing adults in discreet and appropriately located stores.

Or, maybe not. Some people fear pornography for its adverse indirect effects on third parties. These are the people who believed Ted Bundy when he said in his death-chair that porn made him do it.

Fine. Prove it. The pornographer should be liable along with the rapist or murderer if pornography helped cause the crime. But scientifically, this link is far from proved.

Let the porn industry and its critics fight out their differences, but not in the legislature where pseudo-science and sensationalism are more important than proof. The right of free speech is important enough that the smut peddlers should answer only to specific, indentifiable victims of porn, and only *if* these victims can establish harm under the rigors of proof required in the courtroom.

The Supreme Court should not waste time on the nature of obscenity any more than it should debate the eternal question of the tree falling in the forest when no one is around to hear it. The law should be concerned only if the tree falls on someone.

## BY THE WAY...

■ If it's a product of Western science and if it could improve the lives of vast numbers of people, you can count on Jeremy Rifkin to be against it. Sure enough, when the cold fusion miracle was announced, he denounced it as "the worst thing that could happen to our planet." With cheap, inexhaustible power, the impoverished masses of the world could become fast-growing industrial societies—need he say more? Better for the lives of the world's majority to remain nasty, poor, brutish, and short. Not for them the creature comforts Rifkin can take for granted—let alone the luxury of leading the life of an activist. For the record: Paul Ehrlich (now this really *would* lead to overpopulation) and Barry Commoner (desperately seeking solar) also object. Well, maybe they'll get lucky this time. It looks increasingly like cold fusion isn't so simple. On to the next threat to poverty.

■ Moves are afoot in Congress to give FDR his own memorial, just like Lincoln, Jefferson, and Washington. Trouble is, the thing will cost $38 million, and the president's budget earmarks only $19 million for it. Raising the rest privately would cause more delays —and certainly wouldn't be in the Rooseveltian spirit.

With that weighty dilemma in mind, we have a proposal: Why not designate some *existing* structure as the Roosevelt Memorial? The socialist realist statue in front of the FTC—of a man subduing a wild horse (representing capitalism)—would do nicely and could be relocated. Or Congress could rename a building after Roosevelt; the Pentagon, the Supreme Court, and the Social Security Administration spring to mind. Or they could create a tour, like Boston's Freedom Trail, through Washington's many New Deal monuments. All that would take is some paint for the sidewalks. And they could use the $19 million to pay some of those approved-but-unappropriated reparations to Japanese-American internees.

■ Poland's government seems to have learned a trick from Nicaragua's. Dr. Krzysztof Ostaszewski, a mathematician at the University of Louisville, reports that the Union for Realpolitik is running in Poland's June election on a free-market platform. Although the country's new political climate allows it to exist, it is the only party denied a paper quota by the government.

"The Communists have paper, Solidarity has paper, nationalists have paper, but Capitalists get no paper." Ostaszewski is looking for donations of newsprint. "The truly capitalist way to handle this would be to buy it and ship it there," he admits, "but my personal resources are small." Anyone with an oversupply of newsprint—or advice—can contact Professor Ostaszewski at (502) 637-8514 or *Unia Polityki Realnej* at 011-4822-410877.

■ REASON, like most magazines, gets some interesting mail. We don't print all of it, but sometimes letter writers tell us things too extraordinary to keep to ourselves: "The Spaceshuttle Discovery was shot down in orbit by the Russian spacecraft and a duplicate spaceshuttle landed in California with a full complement of 5 synthetic crewmembers."

We hope they like it here.

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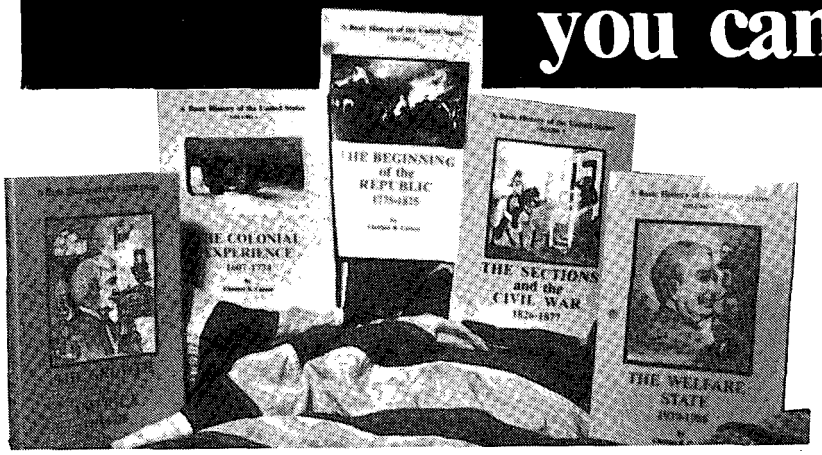


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## NAAG, NAAG, NAAG

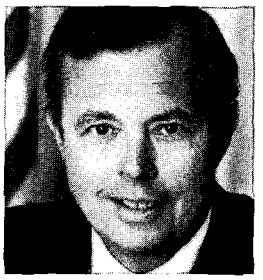
State attorney general used to be a fairly mundane job. Attorneys general spent their time advising the governor and legislature on legal matters and hoping for a colorful crime to prosecute. Now, however, some attorneys general are trying to redefine their role, banding together to police the nation's businesses.

They've hectored airlines to be more specific in advertising special fares and frequent-flier programs. They've interfered in corporate mergers, trying to enforce guidelines far stricter than those set by federal regulators. And they've threatened to regulate advertising of aspirin and used cars.

Led by high-profile attorneys general such as John Van de Kamp (D-Calif.) and Robert Abrams (D-N.Y.), the National Association of Attorneys General (NAAG) in 1987 set up guidelines regulating corporate mergers. These guidelines were, in most respects, far stricter than those used by federal authorities. The attorneys general also signed a compact agreeing to work together to enforce their rules. Even before the compact formally went into effect, the attorneys general of New Hampshire, Massachusetts, and Maine threatened a merger between Federated Department Stores and Campeau Corp., ultimately forcing Campeau to sell several Federated stores.

Last year, NAAG established guidelines for airline advertising, requiring airlines to go far beyond federally mandated disclosures on the terms of discount fares. The rules require, for example, that television ads disclose all restrictions and penalties on special fares by voiceover rather than a printed message on the screen. The attorneys general threaten airlines that don't meet their requirements with prosecution under state laws against deceptive advertising.

The attorneys general do have their critics. Business executives have charged them with prosecuting business to further their own political ends. Some have privately suggested that the NAAG rename itself the National Association of Aspiring Governors.



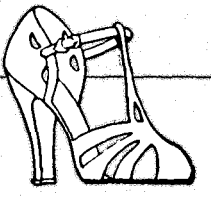
**Hi, I'm John Van de Kamp, and I want power.**

And William MacLeod, director of the Federal Trade Commission's Bureau of Consumer Protection, charges that the airline-advertising rules have actually hurt consumers. By requiring airlines to load so much information into their ads, they've discouraged price advertising. "Price advertising that formerly was driving the intense price competition in the deregulated industry has decreased," MacLeod told the *Wall Street Journal.* "That isn't consumer protection."

At least one attorney general isn't very pleased with his fellows. Writing in the *Wall Street Journal,* New Mexico's Hal Stratton (R) charged, "Some ambitious, high-profile attorneys general are working feverishly to move the organization away from its traditional role as a forum and clearinghouse and turn it into a shadow Congress that would dictate national law in many areas of business regulation. They are using the cover of consumer protection to impose their own anti-business, pro-government regulation views on the entire nation and are bypassing the legislative process."

*—Charles B. Oliver*

## The Price of Protection



Most Americans think of the United States as a free-trade island in a sea of protectionist nations. In reality, the U.S. government maintains significant barriers to trade. Tariffs, quotas, and "voluntary restraint agreements" are the most common forms of protection. These barriers restrict consumer choice and drive up the prices we pay for goods and services. No one knows just how much more consumers must pay because of trade barriers, though in 1986 economist Gary Hufbauer put the figure at $65 billion. More recently, other economists have studied some particular industries and found that the bill quickly adds up to $28 billion, even excluding most of the economy.

| | (billions) |
|---|---|
| Automobiles | $4.3 |
| Machine tools | 0.32 |
| Steel | 1.8 |
| Apparel | 17.6 |
| Textiles | 2.8 |
| Rubber footwear | 0.23 |
| Nonrubber footwear | 0.7 |
| Ceramic tiles | 0.12 |

Source: Citizens for a Sound Economy

## Radical Prescription

Claiming that the Food and Drug Administration has not moved fast enough in approving new AIDS drugs, some patients and their supporters have taken matters into their own hands. The People With AIDS Health Group has set up an elaborate network to import prescription drugs not available in the United States but approved for sale in other countries.

Previously, AIDS patients had to travel abroad and find foreign doctors to prescribe these drugs. The group's plan takes advantage of an FDA policy announced last year that allows people with life-threatening diseases to import personal supplies of drugs approved for sale in other countries but not in the United States.

Meanwhile, Canada has announced an even more radical policy. In February, the Canadian government informed doctors that it will allow patients with life-threatening diseases to obtain any drugs that pharmaceutical companies are willing to sell, even if no country has approved the drugs. The drugs need not be made by Canadian companies; they can be made abroad and exported to Canada. The Canadian program is actually 10 years old, but until the February announcement, most doctors and even many health officials were unaware it existed.

While the program is aimed at Canadian patients, foreigners can take advantage of it also. "No one will stop them at the border," said Dr. Michèle Brill-Edwards of Canada's Bureau of Human Prescription Drugs.

AIDS advocates in the United States expressed surprise and guarded optimism when told of the Canadian program. Michael Callen, a spokesman for the People With AIDS Coalition, told the *New York Times*, "It's definitely intriguing, but it's so radical it borders on anarchy."

*—Charles B. Oliver*

## Paying the Piper

A recent federal district court ruling may have set the stage for multimillion-dollar payments to property owners by cities with rent control laws. The preliminary ruling, finding that Santa Barbara, California's rent control law constituted a "taking" from the owner of a mobile-home park, represents the first time a court has declared that rent control in effect confiscates property. Since the Fifth Amendment prohibits any taking unless "just compensation" is paid, Santa Barbara could be forced to pay up.

Assistant City Attorney David Hughes argued that just compensation has already been paid, because the statute permitted rent increases of 75 percent of inflation even though the owner was at the time only raising rents by 60 percent of inflation. Also, the effect of the statute was to permit the owner to charge more for utilities. For these and other reasons, Hughes has asked the judge not to award any damages.

The plaintiff's attorney, Robert Jagiello, argues that substantial appreciation of the park's land has accrued to the tenants, rather than to the owner, because of rent control. "During the trial," Jagiello explains, "I proved that mobile homes were selling for as much as $150,000 that are worth $10,000. The real thing that has value is the property."

If Jagiello wins, his client could get as much as $1-2 million. And if a victory leads the owners of the five other mobile home parks in Santa Barbara to sue, Jagiello estimates they could win $5-7 million. "That'll be a shock to the city," he says, not resisting a chuckle, "because the mobile-home park housing is about 1 percent of their total housing stock. So all the rest of the taxpayers get to subsidize this 1 percent that managed to live at a greatly reduced rent for the past six years. And so they get, basically, to pay the piper for a dance they never attended."

The Santa Barbara law affects only mobile-home parks, but any federal decision on rent control could form the basis for attacks on more-sweeping laws. Jagiello is already challenging Santa Monica's notorious rent control.

His client is Lena Schnuck, a 91-year-old ailing woman who lives on the top floor of a two-story house in Santa Monica. Unable to negotiate the steps, she wants to move onto the first floor. But the young woman who rents the first-floor apartment from Schnuck refuses to move out. Because of rent control, Jagiello estimates the tenant pays about $400 a month for an apartment worth $1,500, and Schnuck cannot evict her under the law.

If the Santa Monica law is deemed a taking, residents will face one granddaddy of a tax hike. Every landlord in the city will sue for compensation, and claims could total in the billions. When asked whether the city of Santa Monica has a plan for paying the huge liability if it loses the Schnuck case, Deputy City Attorney Barry Rosenbaum sputters: "It's not going to happen. I mean, it's just not going to happen. I'm not going to speculate. It's not going to happen."

*—Craig M. Collins*

**"I've never seen a gun owned by a law-abiding citizen used in a crime. Every firearm I've ever taken from a citizen that was used in a crime was obtained illegally. The laws that we're passing now won't change anything."**
*—William Osterman, police chief of Elmerborough, N.J., quoted in* USA Today.

TERI KLASS

## BALANCE SHEET

### *Assets*

**Teenage Wageland**. Child-labor laws come under question, as the labor shortage drives businesses to hire more teens—and people notice that supermarkets and fast-food joints aren't exactly sweatshops. Federal rules say 15-year-olds can't work past 7:00 P.M. on school nights and people under 18 can't run meat slicers. State laws are even more paternalistic, but changing. Massachusetts relaxes its law to let food-store employees under 16 work till 7:00, instead of 6:00.

**Midlife Savers.** Americans put away more of their paychecks. The personal savings rate hits a four-year high, at 6.3 percent of disposable income, in March. Fears of a recession, perhaps. But more likely, it's just what the economic theorists would predict: as people age, they save more. Even baby boomers.

**Household Help**. Single-family zoning erodes a bit, allowing more-efficient use of the housing stock and less government control over private life. New York State's highest court strikes down a law forbidding more than four unrelated people to live together in a single-family residence; the case involved a family with three elderly boarders. Meanwhile, Denver revises its "living in sin" code to permit two unrelated people to live together.

**Democracy Will.** Chinese student demonstrators overwhelm troops sent in to quell their protests. Onlooking workers cheer. Crowds are so large and anonymous that they'll be hard to wipe out. The demands are vague—"I don't know what democracy is. But we need more of it," a student tells the *New York Times*—but the thrust is clear. Government officials have too much power, with too few checks. A free press and independent judiciary would go a long way. Time to import Chinese translations of Tocqueville.

### *Liabilities*

**Property Rites.** The land-use war on religious exercise continues (see "Quiet Crusade," Dec. 1987). Two rabbis get slapped with $50,000 fines for holding services in their Wesley Hills, New York, home, a violation of zoning laws. Atlanta wants to seize two churches to build a new stadium. A Minneapolis suburb limits the acreage of churches—and no other institutions. Traffic is the issue, not tax exemption.

**Smog Alert.** Debate over air pollution, both the Clean Air Act and L.A.'s draconian plan, gets cast in the same old terms: cheapskate profiteers versus "purity at any price" good guys. Unless we black hats alter the terms of the debate, we're doomed. When the air is at stake, reporters don't care about lost jobs, poor people, or anything else that smacks of materialism.

**Import Quotas.** "Managed trade." What is it? Affirmative action quotas for American products in Japan. A government-appointed committee of business bigshots wants to force the Japanese to buy American—even when import barriers aren't the problem. Carla Hills, Bush's antitrade trade rep, seems to like the idea. But, notes *New York Times* economist Peter Passell, to control what people buy, the Japanese would have to adopt Soviet-style central planning. Maybe that's the point.

**Insurance Scam.** The fuss over Medicare's new catastrophic coverage makes it clear what the Social Security generation expects from the government—something for nothing. Yes, it's wrong to foist high taxes on all retirees to pay for insurance they may not need or want. But the gripers aren't talking about scrapping the program altogether. They just want someone else to foot the bill.

*—Virginia I. Postrel*

## Always Room for More

How would native workers be affected if millions of legal and illegal immigrants were allowed to enter this country over the next 10 years? University of Chicago economist Robert Topel analyzed the effects of the estimated 4 million immigrants who arrived between 1970 and 1980 and concluded that large numbers of immigrants do not, in fact, hurt native workers.

While immigrants take low-paying jobs and pull down the *average* wage in an area, Topel found that any effects on native workers were "quite minor," even for native Hispanic or young black men, who because of their low average wages

and high incidence of unemployment are especially sensitive to this competition. Immigrants are "easily absorbed," Topel concluded, even in gateway cities such as Los Angeles (where immigrants accounted for 65 percent of the total growth in the labor force).

A large number of newcomers might lower wages for other recently arrived immigrants, but that effect is small. If the number of immigrants in a particular area were doubled, Topel estimates, the wages of other recent immigrants in the same area would decline by only 2.5 percent.

The positive effects of immigration—increasing the labor supply and national product and reducing the prices of some goods—have not been sufficient to persuade Congress to open the borders significantly, in large part because of fear that American workers will suffer. Topel's study, done for the prestigious National Bureau of Economic Research, should mitigate that fear.

*—Craig M. Collins*

BASCIA KOROLCZYK KENTON

## Seeds of Doubt

What do farmers want from Congress in the 1990 farm bill? Don't ask them.

According to a poll taken by Peter D. Hart Research Associates, 42 percent back the elimination of all government support programs for farmers, and 62 percent would go along with an international phaseout of all farm subsidies. But 56 percent want higher government price supports.

Still more paradoxically, a majority favor "strict production controls" to raise farm prices. But they oppose reductions in acreage—the main way to control production.

The poll also revealed that 78 percent of farmers complain that the rest of us have little or no understanding of their needs. We wonder why.

*—Charles B. Oliver*

### FYI

Groups or individuals mentioned in this month's Trends:

**Immigration:**
National Bureau of Economic Research
1050 Massachusetts Avenue
Cambridge, MA 02138
(617) 868-3900

**Rent control:**
Robert Jagiello
1847 Commercenter West
San Bernadino, CA 92412
(714) 888-9804

***AIDS drugs:***
People With AIDS Coalition
263 W. 19th Street
New York, NY 10011
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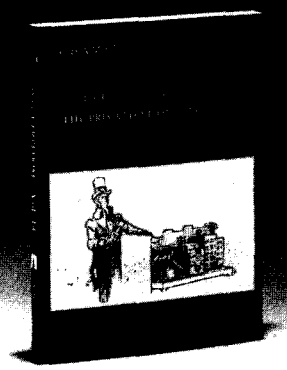

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—U.S. Congressman Dick Armey

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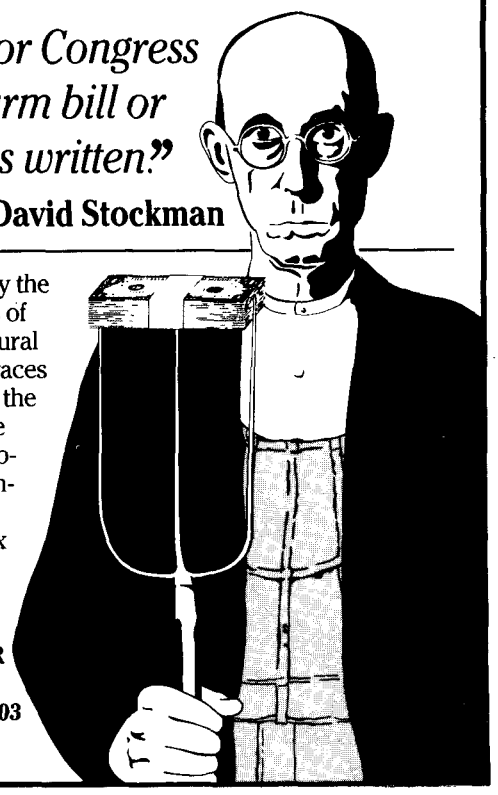

Few people have been helped by the massive farm subsidy programs of the past 50 years, charges agricultural economist Clifton B. Luttrell. He traces the history of farm programs from the early price support schemes to the massive New Deal and postwar programs, then provides a comprehensive analysis of modern programs. Farm programs, he concludes, "tax the poor to enrich the wealthy." $19.95 cloth/$9.95 paper/149 pp. Available at bookstores or from:

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# South Africa's Blacks Are Realizing Their QUIET Economic Power. Can Apartheid Survive?

BY ANDREW CLARK

# REVOLUTION

The flaming television images of township revolt that rocked South Africa and shocked the rest of the world four years ago have by now almost completely subsided from the vivid screen. But while the white minority government can claim to have broken the period of "unrest" and settled down to business as usual, a newer, quieter, and ultimately far deeper revolution is taking place in the cities and the black townships of this conflict-torn nation. As the rest of the world contemplates sanctions, trade embargoes, and disinvestment campaigns, South Africans from across the country's numerous divides are struggling to build an economy unhindered by the state's all-pervasive restrictions.

The potential has always been there, but recent cracks in the edifice of apartheid have unleased an entrepreneurial energy that is forcing the 40-year-old National Party government to successively abandon its racial policies and rethink its options regarding the future. It is against this background that "black economic empowerment," a phrase on the tips of so many South African tongues these days, can be seen for what it is: a truly revolutionary force that could finally push South Africa into the developed and civilized world, eroding the laws that deprive its people, black and white, of prosperity and freedom.

Within the past year or so, black economic power has forced major changes in the way the South African government and business establishment act and think:

• Through consumer boycotts that brought to a standstill towns controlled by the right-wing Conservative Party, blacks have crushed the neo-apartheid group's attempt to vigorously reenforce lapsed ordinances calling for segregation of public facilities such as libraries, parks, swimming pools, and civic centers.

• The buying power of blacks (referring collectively to all people of color—Africans, "Indians," and "coloreds") has begun to exceed that of whites. The economy is already thoroughly intermingled, and producers can no longer treat the "black market" as a mere appendage to the "white market." Black buying power has not only made boycotts a potent political tool, it has also created a solid financial basis for the black press, as optimistic advertisements fill the pages of such periodicals as *Tribute*, *Black Enterprise*, *Drum*, *Thandi*, and *Africa Now*. The *Sowetan*, a tabloid representing the huge and sprawling township that is in fact South Africa's biggest city, is now the country's fastest-growing newspaper.

• By putting thousands to work, the "informal sector" of hawkers, traders, money lenders, and minibus taxi owners has boosted South Africa's employment and rescued an otherwise abysmal rate of growth. In particular, the booming taxi business has grown in five years from almost nothing to a respected nationwide industry that annually mobilizes more than $1 billion in capital. It has put the government-subsidized buses to shame, forcing them to cut back by almost half.

• In the aftermath of the 1984-86 riots in the African townships, the government has rapidly retreated from those areas—and black economic muscle has risen to meet new demands. Black residents have bought up and refurbished their formerly government-owned houses. Black developers are starting to construct low-cost new units to meet a huge pent-up demand. And black real estate agents are presiding over a bustling market in the upscale properties being purchased by the emerging African middle and upper classes.

• In defiance of apartheid's cornerstone law, the Group Areas Act, hundreds of thousands of Africans, "coloreds," and "Indians" have moved into urban neighborhoods legally reserved exclusively for whites, creating numerous "gray areas." Parts of Johannesburg, Cape Town, and Durban are now as integrated (or segregated) as New York, Chicago, or Washington, D.C. In an attempt to save face, the government is now proposing to declare many of these neighborhoods "free settlement areas" for all races.

Slowly but surely, urbanization, economic growth, and black buying power have put steady pressure on the government, leading to exactly the kind of economic and social integration that apartheid was designed to prevent. Blacks in South Africa have been moving to the cities for the same reason that people everywhere turn to migration and immigration: to leave the static situation of their impoverished past and strike out for a new place with greater freedom and opportunity. The government's attempts to restrict this movement, first through influx controls designed to keep rural blacks out of the cities and then through pass laws, have utterly failed. Since the white labor surplus dried up in the early '70s, the government has had to lift, one by one, the provisions barring the training and employment of blacks doing skilled work in white-designated areas.

"Economic growth," says John Kane-Berman, executive director of the South African Institute for Race Relations, "is simply undermining the archaic segregationist structures that were imposed on the economy in the pursuit of the Verwoerdian utopia," a reference to former Prime Minister Henrik Verwoerd, the primary architect of apartheid. The central business districts of more than 60 cities throughout the nation have become free trading areas where anyone who has the money can set up shop. And the laws governing who may own or lease industrial property on the fringes of town have also been relaxed to allow blacks a foothold.

But the Group Areas Act still imposes major restrictions on what a person can own and where he or she can live. "Indian" businessmen operating small shops near Johannesburg's Indian market, for instance, cannot legally live above their stores. And negotiating the maze of regulations required to set up shop in the racially zoned townships is almost enough to make a small entrepreneur give up entirely. But focusing on politics and the actions of political leaders—whether they be government officials, right-wing militants, or left-wing militants—obscures the real "revolution" happening in South Africa: the growth of black socioeconomic power and the building of a new nation that will follow.

Laurence Mavundla will be one of the leaders of this new nation. A ninth-grade dropout from Empande High School in Natal province, Mavundla was first employed underground at the East Driefontein mine, where he rose to the position of shift controller and became a shop steward for the National Union of Mineworkers, the country's largest union. After organizing a strike in 1985, he was arrested, denied bail, and spent a short time in jail.

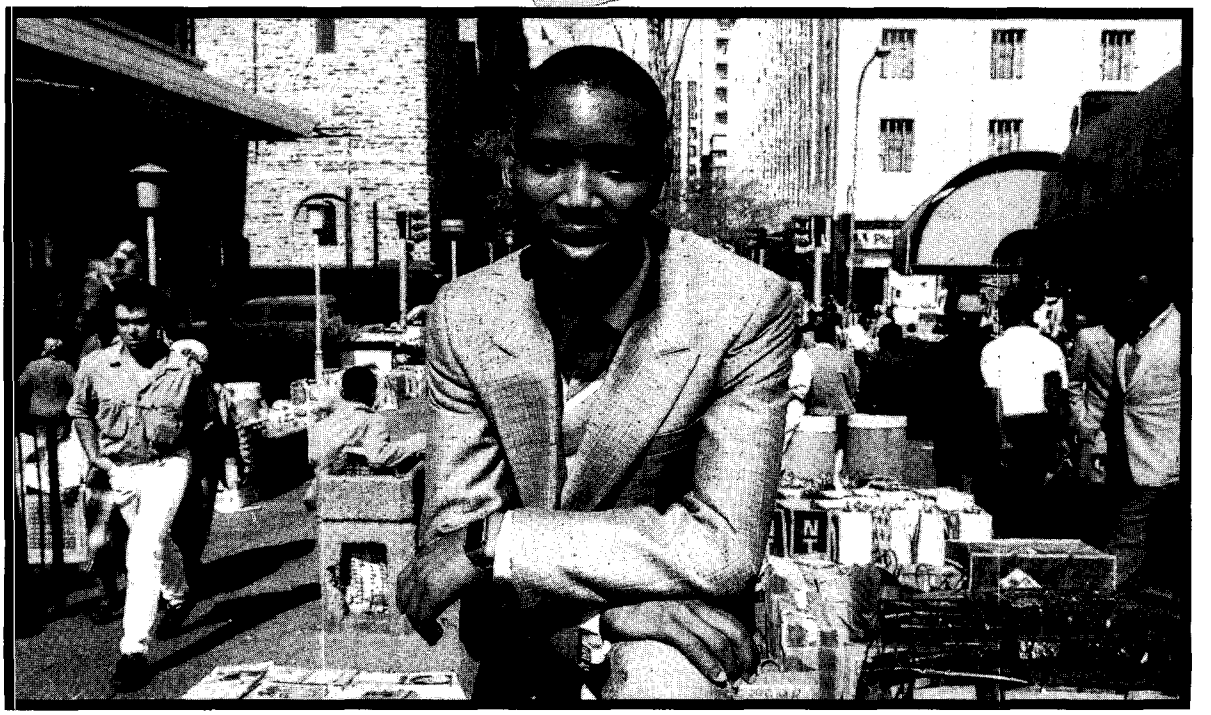
Over the years, Mavundla held a variety of other positions in the trade union movement—as a farm worker, a railway laborer, and a sorter in the Johannesburg post office. Traveling to work one morning in 1986, he noticed several street hawkers being chased by a group of policemen. Most scattered in different directions, but one 101-year-old woman, Granny Harriet Moyo, couldn't run fast enough to escape the police. Her produce was crushed under the wheels of a police van, and she was badly injured when police threw her into their metal-backed truck.

Mavundla pleaded with the officers to show mercy, but to no avail. Disturbed by the experience, he began to investigate the regular police harassment experienced by street vendors—part of a government effort to keep them out of white areas. To provide a political voice for these small entrepreneurs, he founded the organization that became the African Council of Hawkers and Informal Businesses (ACHIB).

Last year during its second anniversary, ACHIB held a commemoration day for Harriet Moyo, who died shortly after the last of the many encounters she had with police during her 58 years hawking fruits and vegetables. "How much money did she spend on fines for earning an honest living?" Mavundla asked at the memorial service. "How many days did she spend in jail? We honor her braveness for not giving up and hawking until her last day on earth. Granny Moyo, your spirit lives on and that is why we can sell freely today."

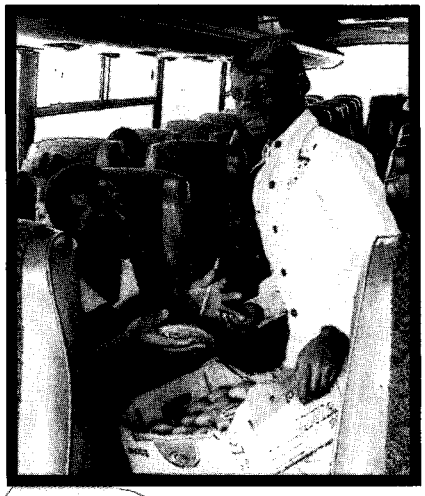
**Laurence Mavundla, who organized South Africa's street vendors: "We don't want your charity, white man."**

One only needs to walk down Jeppe Street, the heart of the hawkers' community in Johannesburg, to sense the vibrancy of the hawker trade. Just blocks from the third-class (formerly "black") railway terminal and one of the world's largest taxi stands, the casual shopper can find products ranging from peanuts, fruit, and lambs' heads to jewelry, handbags, and hair conditioners. Despite liquor regulations, beer is freely available. This is the thriving center of small-scale black enterprise



that thousands of township dwellers pass through every day before and after work.

There are an estimated 150,000 hawkers in South Africa (900,000 if you count all "informal businesses," such as illegal shops in the townships and backyard woodworking businesses). The hawkers' spending power, by some estimates, totals R1.8 billion. Most importantly in a country racked by joblessness, Mavundla estimates that it takes only R135 for a hawker to start up a business. (Although R100 has an exchange value of $40, it is worth about $100 in South African buying power.)



**A young hawker sells apples on a Johannesburg bus. Amid joblessness and discrimination, hawking provides opportunity.**

In a labor market still largely segregated by race—blacks constitute 60 percent of the work force and make up only 4 percent of management—hawking provides a vehicle for self-starting individuals to be their own bosses. Two years ago, Monica Mtatyulwe was a computer-company secretary making R4,000 a year—higher than many of her roommates who work as domestic servants for no more than R2,000 a year, but only a third of what a similarly qualified white secretary would make. Her boss put her in charge of the office when he went on a three-month business trip, says Mtatyulwe, but "when he came back, he thanked me with words only."

She heard about hawking from a friend and decided to make the jump to the informal sector, where she could apply her management skills purchasing fruits and vegetables in bulk and selling them on a downtown street corner. In a good week, she says, she can make R600—almost eight times what she earned as a secretary. She now has two full-time employees.

Although government harassment has diminished in the last two years, hawkers like Mtatyulwe are still far from free to sell their wares. Regulations require that they operate a specified distance from shops, that they move every two hours to a new location, that they not operate within certain street blocks, and that they wear a white coat and have a license with them at all times.

Some of these laws are rarely enforced (a serious government attempt would lead to mayhem), but the all-white "hawker squad" of the South African police has been known to confiscate or destroy goods, arrest hawkers, and levy R100 fines at whim. At a recent ACHIB meeting, one jewelry salesman told of a policeman and his wife who approached his display and took an item, "promising" to pay him next week. Another recounted being arrested for wearing an ACHIB t-shirt that reads: "Please don't arrest this hawker for trying to make an honest living."

To fend off such attacks, ACHIB has found allies among South Africa's biggest businesses. Both Anglo American and Consolidated Goldfields—who are otherwise locked in a bitter takeover battle—have come together and supported ACHIB. And in the big cities where it is strongest, the 13,000-member organization has limited harassment by appealing to the pro-growth and pro-market goals the government claims to uphold. In an open letter to district magistrates and public prosecutors, Mavundla asked for them to "find not guilty all hawkers who have been found to break what we regard as restrictive and unjust laws. These laws prevent them from trading freely and making the contribution to the economy that this country needs."

In response to such efforts, the government recently announced that hawkers selling all goods except prepared foods will no longer require a license. "Restricted" trading areas are also being relaxed, and the law now gives provincial authorities the discretion to deregulate economic restrictions in local municipalities.

The hawkers, however important their contribution to the economy, remain on its periphery because of their shaky legal status and the small scale of their operations. By contrast, the minibus taxi business has fully established its place in the economy and society. In the last decade, it has grown from literally nothing to one of South Africa's largest industries, employing two-thirds as many people as gold mining and pumping billions of rand of capital into black economic development. It, too, is creating leaders for the new South Africa.

Pat Mbatha is an oversized man who dominates his small, busy, and high-roofed office in the Dube section of Soweto. On his walls, along with a prominent photograph of Zulu Chief Mangosuthu Buthelezi and a certificate identifying Mbatha as a member of the South African Black Taxi Association (SABTA), are two photographs that show how far he—and his fellow black taxi entrepreneurs—have come, both economically and politically. One is an aged black-and-white photograph of him with the aunt who lent him the money to buy his first sedan taxi 25 years ago, a car for which he had to illegally rent a license. The other is a much more recent picture of a bulging, well-dressed Mbatha and several other black taxi executives meeting with State President P. W. Botha.

Until four years ago, it was illegal for a driver to carry more than five persons for hire, and taxi drivers faced implacable government opposition. In 1983, in fact, the minister of transport tried to shut down the entire illegal industry after a government commission concluded that buses were the only

answer to mass transport and the taxi industry should be phased out.

Fortunately, the government neglected to define exactly what a "taxi" was, and a smart entrepreneur soon bought a 15-seat minibus and charged individual fares the way a bus company would. Nor was there any competition from better-heeled white taxi operators; taxis owned or driven by whites were not permitted to transport black passengers.

Such regulations were designed to protect PUTCO, the government-subsidized Public Utility Transport Company, which operated an elaborate network of routes from the far-flung black townships to the inner cities. But PUTCO's lumbering blue buses were unreliable, slow, and shabby. More importantly, PUTCO is seen as a white-owned company busing blacks to work for whites. During the period of township unrest, its buses were frequently the targets of stonings, petrol-bombings, and hijackings.

Minibus, or *kombi*, taxis, on the other hand, offered quick, convenient service at competitive rates (R1.00 for trips within town, R1.80 for the 15-mile trip to Soweto). Passengers could signal drivers from the street—finger up for town, finger down for township. The taxis' private owners kept up their vehicles, in stark contrast to the grimy, disgusting PUTCO buses, and while the buses symbolized apartheid, the taxis provided not only a more pleasant ride but also a more politically appealing one.

Bowing once again to reality, the government turned about-face and legalized the fledgling industry in 1985; Mbatha served on the National Transport Safety Commission that recommended the change. Over the next year, more than 7,000 taxis were licensed, and the number has grown by more than 500 percent in the past two years. There are now some 80,000 licensed taxis on the streets and at least as many "pirate" taxis.

Mbatha himself owns 17 taxis that run different routes from Johannesburg to Soweto. A well-managed taxi, he estimates, will take in almost R4,000 a month. No more than R600-700 will go to the driver, and although gasoline and maintenance are expensive, it is easy to see that Mbatha is a very rich man. Indeed, most lavish township homes today belong to taxi owners.

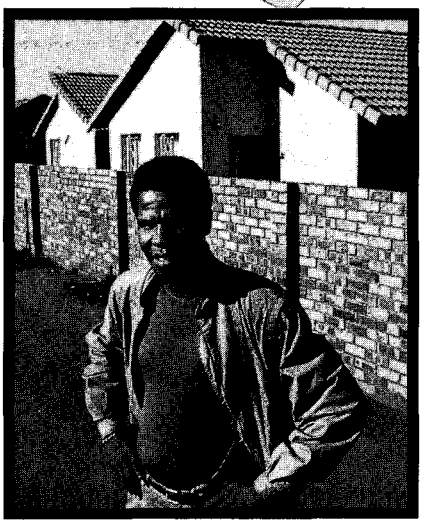
The industry has also spawned a wealth of spin-off businesses that provide gasoline, spare tires, maintenance, and auto-body services—offering additional opportunities for black entrepreneurs. The taxi industry is now the single largest purchaser of gasoline on the African continent and the biggest private buyer of motor accessories. Taxis annually use 3.5 million liters of lubrication oil, pay R170 million in vehicle insurance, and carry 15 million passengers.

The growth of this lucrative market has created business ties between the taxi entrepreneurs and major multinational corporations. Quick to realize the importance of providing service for the taxis, for instance, Shell Oil donated 17 service centers for the use of taxis registered with SABTA. And just as their passenger car and truck sales began to slump, Toyota and Nissan started to work with the taxi industry to design more durable vehicles with better passenger access. One of the most popular current models is the Toyota Hi-Ace, which "races" under the nickname "Zola Budd," after the famous South African runner.

Widely regarded as the leader of black business, SABTA is *the* force, black or white, to be reckoned with in South African transportation. Two years ago the association made an unsuccessful but significant bid to buy out PUTCO. It already operates a bus service in Sandton, an exclusive white suburb of Johannesburg. Last November it launched "SABTA 2000," a program to further diversify its operations into distribution services and delivery, full-scale freight transport, black tourism, and service in the rest of southern Africa, including Namibia and Mozambique. With the backing of SABTA, taxi drivers who raise at least R15,000—a third the cost of a *kombi* taxi—can get bank financing for the rest.

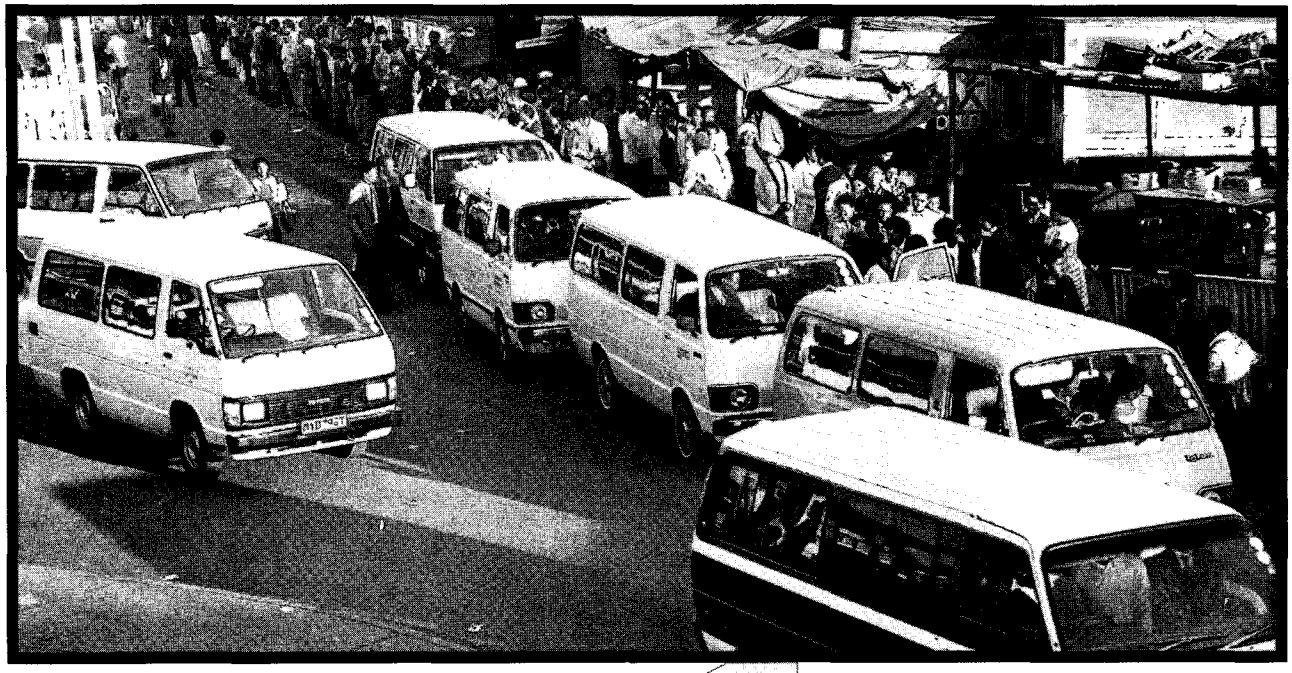
Today, taxi owners are beginning to wield not only economic but political power. "They have wiped PUTCO off the economic pedestal that company held for many years," notes *Sowetan* editor Aggrey Klaaste. "That is not only economic empowerment, that is the type of power that makes politicians sit up and listen."

**Soweto building contractor Mike Nkuna: After 20 years, blacks can once again own their own homes in the townships.**



It is in the African townships where blacks are forced to live that the government's system of economic control has been most vivid—and most violent. Not only did the National Party government historically insist on forcibly removing people of color from areas that were to be declared "white," but it prohibited blacks from owning their own homes in the ghettos to which they were sent.

The effect of government control raised its ugly head most recently during the township uprisings of 1986, when police shot and killed 21 rent boycotters in Soweto while trying to evict them from their state-owned homes. "Again and again, the rioting in South Africa has stemmed from state control of economic life: housing, transport, schooling, land," notes Don Caldwell, author of *South*



**Minibus taxis in Soweto: Black taxi owners have "power that makes politicians sit up and listen."**

*Africa: The New Revolution*, recently published in South Africa by the Free Market Foundation. These killings "never would have happened if blacks had been allowed to enjoy private schools and clinics, own their own homes, choose from competing private transport services, and live wherever they wanted—that is, if they enjoyed private property and free enterprise."

Indeed, the three-year-old Soweto rent boycott, usually considered a "radical" movement to withhold support from the government-backed Soweto City Council, can be interpreted just as legitimately as a grassroots protest against high tax rates and government control over residents' lives. In addition to withholding rent due to the government, residents are refusing to pay "service charges," which run as high as 10 times the rent bill and theoretically pay for township services such as electricity, water, roads, and sewage removal.

David Solomon, an economist at the University of the Witwatersrand, points out, however, that often homes are not metered to measure exact (or even rough) costs of water and electricity, so the "service charge" in fact constitutes a high direct tax for unreliable municipal services. And the charges collected from Soweto go to subsidize white Johannesburg residents, who pay substantially lower fees for better service and receive a 55 percent rebate from the city.

"The so-called rent boycott is really a tax revolt," says Solomon. "It's just the same as Proposition 13 in the California tax revolt, and for similar reasons. It's a political rejection of the structure and representatives of local government, spurred on by high taxes for poor services."

In response to the rent strikes, the government has begun to retreat from some of its long-standing housing policies, within both the black townships and the increasingly integrated cities. In the past several years it has restored blacks' rights of leasehold (title to a house but not to the land) and freehold (both house and land)—rights that were revoked in 1968, forcing all blacks living in the townships to rent from the government. The 1968 directive naturally created both deep-seated resentment and major housing shortages. Almost no new housing was built for blacks over the next 20 years, although the population increased rapidly. As a result, the average black person today lives in an area measuring three square feet.

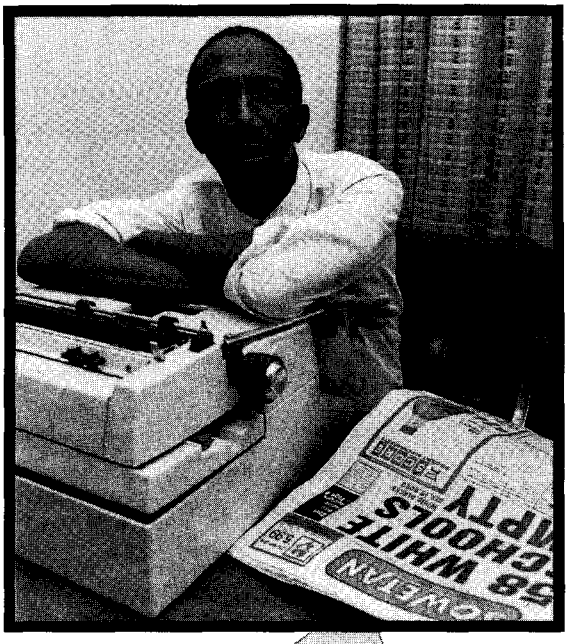
Recognizing ownership rights has led to the private-sector construction of almost 60,000 new units of black housing over the last several years. The government has also sold 100,000 houses—about a third of the townships' formal housing—to tenants through the "Great Sale." Sales were lower than expected because tenants felt they were being ask to buy homes they had already paid for. Experts suggest that 127,000 new units need to be built annually—three times the current rate of construction—to keep pace with demand. And contortions such as the Group Areas Act and government ownership of township tracts still prevent the market from meeting pent-up demand.

"My assessment is that there are 30 houses for every white who wants to buy one, but only one house for every 100 blacks who want to buy," says Pitso Mabena, managing director of Afri Home, one of the growing number of township real estate agencies. "If the black was able to buy in white areas, those 29 houses wouldn't stand empty." He dreams of "establishing a network of black companies to meet the enormous market.

Right now, we need 500 Afri Homes to meet the demand."

When blacks have built their own homes, they've often had little choice about the sites. "As a result," notes Jeff Mashigo, a developer in Diepkloof, Soweto, "in some parts of Soweto today you may find a R150,000 [home] surrounded by council houses," tiny, so-called matchbox houses owned by the government.

To find housing, many blacks have illegally moved into white areas, creating "gray" areas. Neighborhoods like Hillbrow in Johannesburg, Greyville in Durban, and Woodstock in Cape Town have become code words for integration on a large scale—grist for both people who favor it and those who oppose it. Such thoroughly gray areas are unique in degree but not in kind. It's hard to find a single suburb in the major cities where there isn't at least a sprinkling of nonwhite tenants living illegally.



**Sowetan editor Aggrey Klaaste: Politics is not enough for "nation building."**

In the greater Hillbrow area, a densely populated neighborhood of apartment buildings and late-night clubs, informal researchers have estimated that at least 50,000 of the 70,000 residents are Africans, "Indians," and "coloreds"—all technically disqualified to live there under the Group Areas Act. Blacks have been living in Hillbrow on a large scale since at least 1982, when a South African Supreme Court decision made it next to impossible for the government to evict nonwhites even as it let stand the Group Areas Act. Even before then, pioneering nonwhite tenants would get white "nominees" to sign their leases for them, pretending to be the tenants.

Despite the influx of tenants, it is still extremely difficult for blacks to buy condominiums or houses. And for renters, the possibility of eviction under the Group Areas Act does exist. Despite its policy of making some areas open, the government still tries to evict blacks from the fringes of gray areas. Currently, for instance, it is attempting to evict 12 "Indian" residents on the outskirts of Mayfair, another mixed area.

With no recourse to the courts, illegal residents are also vulnerable to exploitation by their landlords. "Landlords tell the world they are offering housing to blacks, but then exploit tenants with high rentals," complains Jennifer Atalami, a resident of central Johannesburg. These tenants, she says, "lead the life of a drifter—they go to work in the morning, not knowing if their possessions will still be there in the evening. Conditions are despicable, rents are higher than normal for black tenants, and they can be raised at any time without warning."

To be fair, notes Lawrence Schlemmer of the University of the Witwatersrand, "landlords are both friends and enemies. Johannesburg has started to open up because landlords were willing to take chances for profit and fill the oversupply of units in white areas. The way to solve this oversupply now is to open up additional areas," by scrapping the Group Areas Act or by creating "free settlement areas" open to all races.

The government has recently announced plans to do the latter. But while some see this action as the first chink in the armor of the Group Areas Act, numerous opposition and antiapartheid groups are united against it. Designating only a few places as "open," they believe, merely elaborates on apartheid ideology and threatens blacks who live in gray areas that aren't declared open. "We are opposed to free settlement areas because it continues to entrench group rights against individual rights," says Sayed Iqbal Mohammed, chairman of the Durban Central Residents' Association, an anti–Group Areas organization.

Asks Cass Coovadia, head of ACTSTOP, a Johannesburg organization that fights evictions related to the Group Areas Act, "Even if people are 'allowed' to stay in the houses and flats where they live, what about basic services such as education? It doesn't make sense for them to say that you can stay here but are not allowed to go to school, because there are no 'black' schools in Hillbrow."

The issue of government services is a serious one. Because the government serves as the gatekeeper to hospitals, recreational facilities, and state schools, black residents of gray areas have found it hard to penetrate those apartheid barriers. Blacks needing emergency care, for instance, are turned away from their local, all-white hospitals, while beds there go empty.

The same thing happens in schooling. Johannesburg Girls High School, a government school in the heart of gray Hillbrow and Berea, operates at around 30 percent of capacity because it cannot admit South African blacks (children of black diplomats are allowed). Although white community residents can petition the Department of Education to allow blacks into government schools, provided their numbers are not too large and do not "change the character of the school," they have rarely taken this step.

Instead, many private schools have opened their doors to all races—with spectacular results. Since 1976, when the Catholic schools integrated their student bodies, formerly all-white Sacred Heart College in Johannesburg has grown from 400 students to 1,200, about half of whom are black.

Brother Neil McGurk, headmaster of the advanced-cur-

riculum high school, speaks enthusiastically of the "exuberance of community life" that has resulted and says the school has never seen a better day as a center of learning. "Give us in the open education community the R3 million currently being spent on schools in the inner cities," he says, "and we will get those schools going on a reconstructed, nonracial basis."

Ultimately, urban integration raises fundamental questions about South Africa's political system. To ask about the legal rights of people in free settlement areas is to do more than challenge segregated schools or hospitals. Lurking in the background is the question of representation: in which elections, if any, may "free settlers" take part?

When landlords illegally opened their apartments to blacks, in pursuit of profit, they laid the groundwork for a fundamental challenge to apartheid. Such are the spillovers from black economic empowerment. Now the notion that political power and political protest are the only ways to eliminate apartheid and ensure freedom and prosperity is dying a slow death.

*Sowetan* editor Klaaste describes in a speech how he came to distrust political actions and favor black economic empowerment: "It was Dr. Nkwame Nkrumah who, in the heady days of African independence from colonialism, exhorted black leaders to seek first the political kingdom. 'Africa's aims,' he declared, including its unity, constituted 'above all a political kingdom, which can be gained only by political means. The local and economic development of Africa will come only with the political kingdom, not the other way around.' "

But, continues Klaaste, "There was a flaw there, which has become reality with the wisdom of hindsight. For one country after the other got its independence in the exhilarating days of Uhuru. And just as inexplicably, nation after nation tumbled. There were coups aplenty and the continent ran red with blood.

"That lesson taught me that the getting of the political kingdom was not the means to an end. Political kingdoms do not stand up on their own, pristine, exultant as a galvanizing abstraction. They are also not the result only of politicking and rhetoric.

"Political kingdoms to be effective, lasting, and particularly democratic need all sorts of power structures to underpin them. They need a backup of strong people who have clout economically, clout academically, who have the strength to recognize the value of a free press and free religion."

Strengthening alternative institutions through which growth can take place and democratic pluralism can flourish is the process Klaaste calls "nation building." And he believes the informal sector will play an important part—though by no means the only one—in providing not only economic advancement but institutions and leaders for a post-apartheid South Africa.

Klaaste's ideas are not unlike those of Peruvian writer Hernando de Soto, whose book, *The Other Path*, has galvanized Latin Americans to consider the role of the informal sector in building both prosperity and democracy. Klaaste discovered de Soto's book last fall and finds striking parallels between its description of Peru and life in South Africa.

"When countries have the tradition of the mercantilist, or corporatist, state," he notes, echoing de Soto, "they squeeze the little man out of jobs and his economic situation. People being people, they want to survive and will do all manner of things and create all kinds of 'informal' structures outside of the state.

"In the past, the elite thinking was always that the developed world would render aid and upgrading to the underdeveloped world, providing some sort of redistribution from the First World to the Third World. But it is just common sense that local and native institutions must be developed. While you may think that there needs to be some sort of redistribution in a post-apartheid society, the most important thing is for blacks to have their own chance to create their own structures and their own wealth. I've seen the differences in standard of living between black and white in this country: they are phenomenal, so great that I don't think any form of redistribution will take care of this."

Likewise, Mavundla of ACHIB lets the politicians everywhere he goes know that they have blown their only chance. It's time for them to get out of the way and let economic growth and free enterprise take over. Without a hint of malice, he will say: "We don't want your charity, white man. If you were to give the black people an opportunity to make a living for themselves, black people would be able to build their own houses, they would be able to send their own children to school."

Americans who care about South Africa should listen carefully to Mavundla's message: If you think you can control our destiny from 10,000 miles away, you're dead wrong. Either support black economic empowerment or don't support us at all. But certainly don't presume to decide what's best for us.

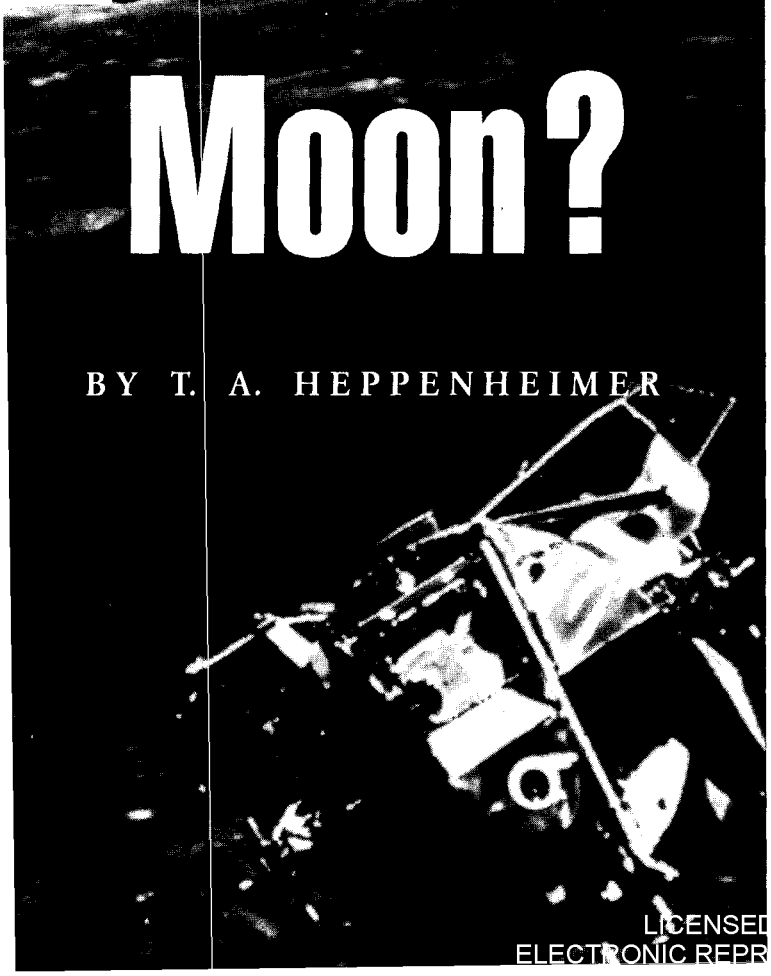
Speaking at the conclusion of an ACHIB conference designed to bridge the gap between the formal and informal sectors, Mavundla is one of the most eloquent spokesmen for black enterprise: "The people suffer from laws of local authorities, so go do something about it. The private sector and business institutes here got to take over the fighting for this country. Politicians have failed to change. All countries with economic freedom are ruled by people. This country is not; it is ruled by fear."

"Why are organizations always breaking off from each other? CP from NP? AWB from CP? PAC from ANC? Azapo, Azanu, Azaco? It is because of only one thing—that is fear. There will be breakaway, political breakaway, until we are still reduced to nothing. What can be done? I say, if we put politicians together and say to them, here is 10 Rand, they will put down their ideologies. It all looks the same to them. You are in business, you see the same money. Before political solutions are solved, we must find economic solutions. We must find how to work together." ■

*Andrew Clark, an American living in Hillbrow, Johannesburg, writes for the* Weekly Mail.

# Why Did We Go to the Moon?

BY T. A. HEPPENHEIMER



The television image was grainy, blurred, starkly black-and-white. For well over 20 years, commercial stations had been broadcasting transmissions of better quality. But the astonishing thing, on that July night in 1969, was that the transmission was taking place at all. It was coming live from the moon, from a miniature TV camera that astronauts Neil Armstrong and Buzz Aldrin had set up near their spacecraft. And around the world, hundreds of millions of people watched as these astronauts moonwalked with a bouncing gait, collected samples of soil and rock, and unfurled a wire-stiffened American flag.

When they splashed down in the Pacific four days later, President Nixon himself was aboard the aircraft carrier *Hornet* to meet them. "The greatest week in the history of the world since the creation" was how Nixon described their eight-day mission. Yet there was a curious sense of anticlimax about it all. The Apollo moon-landing program had gestated much earlier in the decade, long before Vietnam, campus unrest, and inner-city riots captured the national attention. Already, in 1969, NASA's budget was on a steep downward slide. Within little more than a year of that lunar landing, NASA Administrator Robert Frosch would announce that there would be no more moon landings beyond those already planned. The last such flight went there in December 1972, and then the moon returned to the unvisited stillness in which it had existed for four and half billion years.

Today, 20 years later, it is possible to weigh and assess Apollo's significance. The passions and enthusiasms of those times have faded. But that fading means that Apollo can be put in perspective, reduced from its larger-than-life character, to be understood as one among many major policy initiatives that marked the 1960s.

Why did we go to the moon? Why did this effort emerge so strongly under President Kennedy, with the space program being more clearly associated with his administration than with any other before or since? What was it about that particular moment in history, with Kennedy in the White House, that would lead the nation to embrace what had long been a metaphor for the impossible and out-of-reach? And in the words of the poet Robert Southey, "What good came of it, at last?"

The answers, at least in outline, are clear. Apollo was a response to exaggerated perceptions of the Soviet threat and exaggerated hopes for technology. It was set forth in deliberate contrast to the measured caution of President Eisenhower. It came forward as a dramatic demonstration of Kennedy's activism, of the view that government action could seize the future. Its legacy, finally, would be a few brief moments as an adventure of the human spirit—and a large space-program bureaucracy that would demand successfully to be fed, down to the present day.

Above all, Apollo stands out as emblematic of the contrast between Presidents Eisenhower and Kennedy. Ike had led the

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# APOLLO'S LASTING LEGACY, REEXAMINED

British and U.S. combined armies in World War II; he knew America's strength from the most sweeping of vantage points. And just as a great army, once set in motion, does not readily turn in its course, so Eisenhower maintained a consistent set of policies throughout a succession of crises. Kennedy, by contrast, had never commanded anything larger than a PT boat, a small and highly maneuverable naval craft. He saw the nation from the vantage point of a PT boat skipper and believed he could steer it in new directions with sharp turns to the wheel of the ship of state. Ike, when presented with an explicit request to proceed with Apollo, rejected it with disdain. Kennedy embraced it before a joint session of Congress, barely four months after his inaugural.

Eisenhower was the last president to believe in limited government. Balancing the budget was his goal, and he met or nearly met it except for the recession year of 1959. Eisenhower resisted the Keynesian prescription to prime the pump with government spending, believing that the country would grow out of that recession in a natural way. It did, and Ike left as his legacy an inflation rate of little more than 1 percent per year.

In foreign policy, Ike particularly insisted on holding to a steady course. He had mopped up the Korean War during the first months of his administration and thereafter steadily resisted opportunities to involve the United States in a new conflict. In 1954 the French faced defeat at the hands of the Communists in Indochina, led by Ho Chi Minh. America was deeply involved, supplying the French with money and equipment. As their position crumbled, Ike faced strong demands to deal with Indochina as the linchpin in a worldwide struggle against communism and to intervene with force. He refused. And as the 1950s brought other crises—the Soviet invasion of Hungary in 1956, a joint British-French-Israeli invasion of Egypt, a Soviet threat to seize West Berlin during 1958 and 1959—Ike kept cool, relying on diplomacy to settle each conflict or to keep it from escalating.

This same cool marked his response to a stunning succession of Soviet space successes, beginning with the first Sputnik in October 1957. It was shocking enough that the Russians had beaten us into space; even more startling was the weight of this Sputnik: 184 pounds, eight times the heft of America's planned Vanguard satellites. Then a month later the Soviets dropped the other shoe, launching the 1,120-pound Sputnik II with a dog on board. "The time has come," vowed Sen. Styles Bridges, a leading conservative, "to be less concerned with the depth of pile on the new broadloom rug or the height of the tailfin on the new car, and to be more prepared to shed blood, sweat and tears." Sen. Lyndon Johnson, the majority leader, was more apocalyptic: "How long, how long, oh God, how long will it take us to catch up with Russia's two satellites?"

Eisenhower refused to panic. As a military leader, he was well equipped to assess the threat. The Sputniks demonstrated that the Soviets had missiles that could launch hydrogen bombs against our cities; that was reason for concern. But our own missile programs were proceeding apace, with long-range rockets already in flight test. America was strong, the armed forces capable of defending the nation. Three days after the launch of Sputnik II he held a televised news conference and displayed a missile nose cone that had survived a flight over a range of 1,500 miles. Sputnik, he said, "does not rouse my apprehension, not one iota."

He would hold to that course during the subsequent three years, as the Soviets continued to pull off spectaculars: a 3,000-pound satellite in 1958, a spacecraft sent into interplanetary space in early 1959, then dramatic unmanned shots at the moon that returned the first photos of its unseen far side, followed in 1960 by launches that carried dogs and clearly foreshadowed the orbiting of a cosmonaut. Through it all, Ike stood by a policy he had set back in the fall of 1957: We would launch satellites for suitable military or scientific reasons, he insisted; but we would not be panicked into a space race or into pursuit of elaborate manned missions merely to "catch up with the Russians."

Indeed, by 1960—with Ike still in the White House—the U.S. space program already featured nearly all the principal activities that occupy it today. We were launching satellites with the aid of the Air Force's Thor and Atlas rockets, and the even larger Titan was under development. Nearly 30 years later, descendants of these missiles are still boosting spacecraft into orbit. In 1960 we were pioneering the important field of satellite communications, launching the Army's Courier satellite as well as the experimental Echo I of Bell Labs.

Also in 1960, the Navy launched its first Transit navigational satellite. We also launched the first weather satellite, Tiros I, opening up the immensely fruitful application of spacecraft to meteorology and earth observation. In that year we also laid the groundwork for the planetary program, launching Pioneer V, which communicated to earth by a radio link from a distance of more than 22 million miles.

The Discoverer XIII demonstrated the successful orbiting of a satellite and the safe return to earth of a protected capsule. Developed by the Air Force starting in 1955, and with close involvement by the Central Intelligence Agency, the Discoverers were out to discover, of course, the Soviets' military secrets. They carried cameras and other equipment, returning the film in those capsules. The success of Discoverer XIII in 1960 opened the way to satellite reconnaissance. It also was

the first demonstration of what would soon become a familiar sight to TV viewers: a returning space capsule gently swaying below a large red-and-white-striped parachute, slowly descending to the ocean to be recovered.

Meanwhile, NASA's man-in-space program was well under way. Ike had approved Project Mercury, which had the goal of sending individual astronauts into orbit on brief flights, late in 1958. The following April, amid a blare of publicity, the first group of seven astronauts met the news reporters. And with Mercury coming along, it was none too soon for NASA's advanced planners to begin thinking about the next step.

At NASA headquarters, a Steering Committee for Manned Space Flight looked at space stations and orbiting space laboratories but decided that they had to set their sights higher. Nothing less would do than to send men to the moon. As the committee chairman put it, "A primary reason for this choice was the fact that it represented a true end objective which was self-justifying and did not have to be supported on the basis that it led to a subsequently more useful end." The goal of a moon landing would call forth a host of new rockets and spacecraft, which would find uses in earth orbit as well. There was no such clear and well-focused goal short of the moon itself. By the summer of 1959, NASA's leaders had the moon clearly in their view.

The key to such a project would be powerful new rocket motors. As early as 1958, the Air Force had started developing an engine with 1.5 million pounds of thrust. NASA soon took over responsibility for it and had the earliest version running on a test stand in March 1959. A cluster of such engines would propel the moon rocket. For the rocket's upper stages, NASA planners turned to a new, highly energetic fuel, liquid hydrogen, and soon had a hydrogen-fueled engine with 200,000 pounds of thrust in development. At nearly the same time, NASA managers were inviting aerospace firms to prepare designs for a manned spacecraft that would carry astronauts to the moon. By late 1960, NASA needed only one more thing to proceed with a moon-landing program: presidential approval.

They didn't get it. The question came up at a December 1960 cabinet meeting, and Eisenhower was strongly opposed. NASA's plan would cost up to $38 billion—$350 billion in today's economy. One of the meeting participants compared such a venture to Columbus's voyage. Ike replied that he was "not about to hock his jewels" to send men to the moon. As the historian John Logsdon reports, "The general reaction of the meeting was one of almost sheer bewilderment—or certainly amusement—that anybody would consider such an undertaking. Somebody said, 'This won't satisfy everybody. When they finish this, they'll want to go to the planets.' There was a lot of laughter at that thought."

Within five months, the nation was on its way to the moon, as a new president went before a joint session of Congress. "Now is the time to take longer strides," declared Kennedy. "I believe that this nation should commit itself to the goal, before this decade is out, of landing a man on the moon and returning him safely to earth." Few more dramatic turnabouts have ever occurred in our nation's history.

Why did Kennedy do it? To begin, he was an activist. He deliberately set forth his view—that government should actively pursue programs that address national problems—and contrasted it with what he described as a passive, do-nothing Eisenhower presidency. Along with other leading Democrats, Kennedy wanted to break dramatically with Ike's way. Ike was old, age 70; Kennedy was a youthful 43. Ike appeared to have reacted sluggishly to crises and major events; the Democrats wanted to "get America moving again." Ike had tried to cut expenditures; the Democrats were eager to find new ways to spend money. The Republicans had appeared exhausted; the Democrats would bring in a "Hundred Days" of sweeping new initiatives, in the style of Franklin Roosevelt.

In particular, Kennedy's style of activism was that of a philosopher-king. Since the time of Plato, political thinkers had hailed the prospect of a wise and moderate ruler who would surround himself with the most brilliant of advisors, governing the realm according to their counsel. President Wilson had tried this type of presidency; a Princeton man, he had turned to such leading intellectuals as Walter Lippmann in drafting his Fourteen Points, with their prospect of a new and better world. Franklin Roosevelt, with his "Brain Trust," had governed in much the same way. Now Kennedy was in the White House, a Harvard man with close ties to the leaders of American thought. Only a few years earlier, these leaders had writhed under the lash of McCarthyism. Now they faced the dazzling prospect of ready access to the king's ear.

In addition, Kennedy and the Democrats were futurists, eager to anticipate problems that seemed to lie ahead and to bring forth programs to deal with them. Kennedy, while he was alive, never consolidated his power enough to offer a truly sweeping array of such programs. But Lyndon Johnson, in 1964, pursued this futurism in full measure. He gathered task forces of scholars and experts throughout that summer, setting them to work on education, the cities, the environment, taxes, foreign aid, transportation—14 areas in all. Their reports were in by mid-November; then government specialists distilled their ideas into three fat black books described as "an encyclopedia of American problems, of what has to

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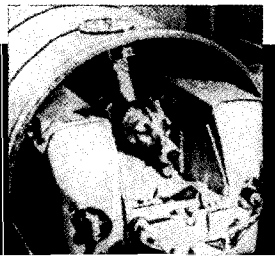

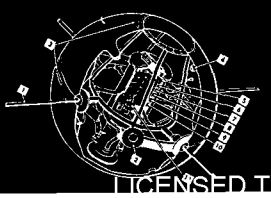

Sputnik "does not rouse my apprehension, not

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be done." By Christmas these were further condensed into a single volume of legislative proposals, under the direction of 30-year-old Bill Moyers. The following spring, with the Democrats holding commanding majorities in Congress, the proposals went to Capitol Hill as bills for enactment.

While Kennedy never was able to legislate on so handsome a scale, he had set the tone of activism and futurism. And with the very name he chose for his administration—the New Frontier—tasting strongly of space flight, it was entirely in character for him and his party to adopt NASA's moon-landing plans as their own as soon as the opportunity arose.

It came in mid-April 1961, less than three months into his presidency. The Soviets launched cosmonaut Yuri Gagarin, seizing the world's attention by putting the first man into space. Ike would likely have shrugged it off as demonstrating nothing fundamentally new. After all, America's Mercury program was to put an astronaut into orbit by the end of the year. Kennedy, however, lacked Ike's self-assurance. "Is there any place we can catch them?" he asked his advisors. "If somebody can just tell me how to catch up. Let's find somebody—anybody. There's nothing more important." At a press conference, his attitude was the opposite of Ike's calm certainty of U.S. strength: "However tired anybody may be, and no one is more tired than I am, it is a fact that it is going to take some time. We are behind."

So it was, amid so uncertain a trumpet, that America set its course for the moon. And when the effort at last reached completion—when the dusty footprints of astronauts had pressed the soil of a half-dozen lunar sites and the leftover rockets and spacecraft had vanished into museums and public displays—supporters and opponents agreed that the Apollo program had been larger than life.

For liberals, Apollo was a significant feature of what historian Theodore White called the Liberal Theory: "Since money comes easily under the modern managed economy, [there was] the belief that Money Solves All Problems, as in the rhetoric of hope: 'If we can spend the money to reach the moon, we can spend the money to save our cities, solve cancer, purify our streams, cope with drugs, cleanse our ghettos...etc., etc.' "

At times this attitude could be astonishing in both its explicitness and its naiveté. Thus, at the time of the first moon landing, attorney Sylvia Drew of the NAACP told the *New York Times*: "If America fails to end discrimination, hunger and malnutrition then we must conclude that America is not committed to ending discrimination, hunger and malnutrition. Walking on the moon proves that we can do what we want to do as a nation."

The naiveté in this view lay in equating Apollo, an engineering project, with social programs whose ends and means were far less well understood. Apollo could literally be reduced to applied mathematics, with its detailed features calculated correctly to several decimal places. Social programs, by contrast, involve human beings, whose lives and attitudes cannot be so neatly captured. An Apollo engineer might specify in precise detail the technical steps that would turn common sand into an electronic microcircuit. But no social planner can say, even in vague outline, how to turn a drug-ridden rotter into a productive citizen. It was symptomatic of liberals' arrogance that they failed to see this.

The views of the nation's technical leaders, who supported Apollo, were equally unrealistic. Apollo, they declared, was a fruitful source of spin-offs, of new technologies that would launch the industries of the future. A common view, repeated to this day, has been that Apollo spawned the rise of microelectronics. It is without merit. Pertinent elements of Apollo were in fact spin-offs of a vigorous electronics industry that was already advancing rapidly.

Texas Instruments, Motorola, and Fairchild Semiconductor had developed the basic techniques for fabricating microcircuits during the 1950s—long before there was a moon program. By the late 1950s the two largest sources of funding were the Air Force, which needed the new circuits for its missiles, and IBM. In 1964 Gordon Moore of Fairchild summarized recent progress in "Moore's law"—that the number of individual transistors and other circuit elements, on the most complex microchips, had doubled in every year since 1959 and would continue to advance at this rate. Continue it did; by 1981 Hewlett-Packard was producing microprocessors containing some 600,000 elements on a single chip.

What drove these advances was not NASA but commercial opportunity. It is a long-standing trend that most industries reduce their constant-dollar costs by 20 to 30 percent each time their cumulative production doubles. Data from the semiconductor industry show that integrated-circuit costs have declined 28 percent with each doubling of the industry's experience. However, most industries serve markets that grow only with the population or gross national product. By contrast, the proliferating electronics markets, between 1960 and 1977, gave rise to a 2,000-fold increase in annual production of transistors (mostly on chips), representing 11 doublings in 17 years. A one-year lead could give a company a 20 percent cost advantage over the competition; a year's lag would mean a comparable disadvantage.

In particular, there was no direct line from Apollo's computers to those of the commercial world. Apollo had an im-

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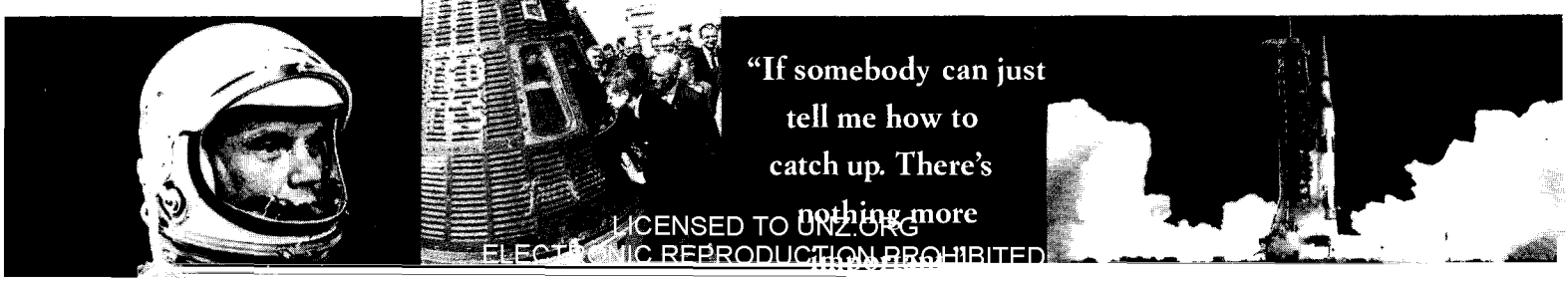


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pressive on-board computer, weighing 68 pounds and having a memory of 37,000 words. However, its designer and builder was Raytheon Corp., which did not pursue this line of development. When the first true desktop computers came along about 1970, they were the work of Hewlett-Packard, which had held no significant Apollo contracts and which indeed had circuits that by then were considerably more advanced than Apollo's.

What Apollo did bring to the nation was bureaucracy. After the heady days of the moon landings, NASA's leaders in no way would rest content with launching more weather and communications satellites. They searched vigorously for a new Apollo-style commitment that would keep alive the costly manned-flight capabilities that had come to define their agency. The result of this quest was the space shuttle, which they blatantly oversold as a path to low-cost space flight. Its eventual failure, in 1986, gave America a self-inflicted space setback far more severe than any ever sustained at the hands of the Soviets.

And today, as in the prediction that drew a laugh from Eisenhower's advisors, NASA planners do indeed want to go to Mars—and more. The $30-billion (and growing) space station is justified partly for its use in supporting a manned mission to Mars. NASA Administrator James Fletcher has warned that the Soviets (does this sound familiar?) "are way ahead of us in manned flight" and could land humans on that planet at least five years before the United States could. During his presidential campaign, George Bush urged "long-term commitment to manned and unmanned exploration of the solar system. There is much to be done: further exploration of the moon, a mission to Mars...." Once in office, he hiked NASA's budget from $9 billion in 1988 to $13.3 billion in 1990. "The space program," he declared, "must always go at throttle-up."

Apollo was without question a triumph of the human spirit. In retrospect, it stands among the similar triumphs of its era: the conquest of Everest in 1953, the first four-minute mile in 1954, the descent to the deepest oceanic trenches by the bathyscaphe *Trieste* in 1959, the unlocking of secrets of the atom and the the genetic code during the mid-century decades. Apollo, however, cost $24 billion, the equivalent of $100 billion in today's money, making it up to a million times more costly than those earlier achievements. This left it unclear whether furture generations would think highly of costly government-sponsored triumphs of the human spirit.

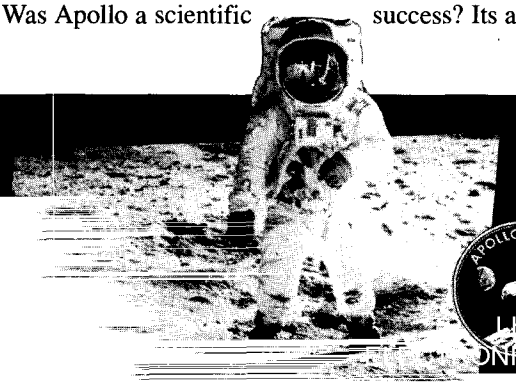
Was Apollo a scientific success? Its announced purpose was to bring back moon rocks that would illuminate the origin of the earth and solar system. In this it failed utterly. The moon rocks came back, indeed; but so cryptic was their message that they failed even to settle the question of the origin of the moon, let alone of the earth. Moreover, each flight to the moon was costing some $500 million—more than an entire year's budget for the National Science Foundation, which was sponsoring research across a broad range of pathbreaking topics.

Apollo, from beginning to end, demonstrated a characteristic mind-set of its era—that government could seize the technologies of the time and thus usher in a future that would be exciting, dramatic, purposeful. It amounted to asserting that government could select in advance the most promising technologies and by force-feeding could bring them to bloom. However, the choice of manned space flight amounted to making national policy on the basis of science fiction, for outside of NASA's own programs, there was and would be no demand for such efforts. Unlike aviation or even unmanned space flight, manned flight would never develop a community of users who would send astronauts into orbit for reasons apart from sending astronauts into space.

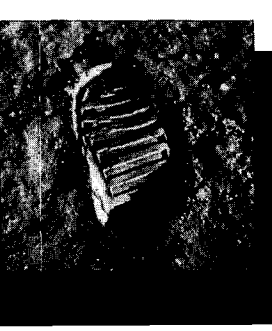
Apollo amounted to a federally funded misreading and hence a distortion of the emerging technology of space flight. Eisenhower turns out to have been right; his space policies are the ones that would serve the nation best. His unmanned satellite would satisfy a host of purposes: military reconnaissance, communications, weather and earth observations, navigation, scientific research. Ike had planted a sturdy tree that would grow and blossom to serve real national needs. Kennedy's Apollo was a hothouse plant that would wither as soon as the nourishing flows of money were withdrawn.

The best one can say for Apollo, in the end, was that it worked. It did land its men on the moon and it sparked an enormous amount of favorable publicity for the United States. It defused the worrisome challenge of the Soviets' space successes. And not the least of its virtues is that it tied up a fair-sized pot of money that otherwise might have been lost in Vietnam or wasted on dubious social programs. What one remembers, though, is Apollo's hundreds of thousands of employees working with meticulous skill and ingenuity to fulfill a goal founded in hubris. What the historians Will and Ariel Durant said of Napoleon may well be said of Apollo: that it is good—and enough—to behold and suffer, once in a long time, the power and limits of the human mind. ■

*T. A. Heppenheimer writes frequently for popular scientific publications and is the author of numerous books.*




**The human spirit triumphs, but in poet Robert Southey's words, "What good came of it at last?"**



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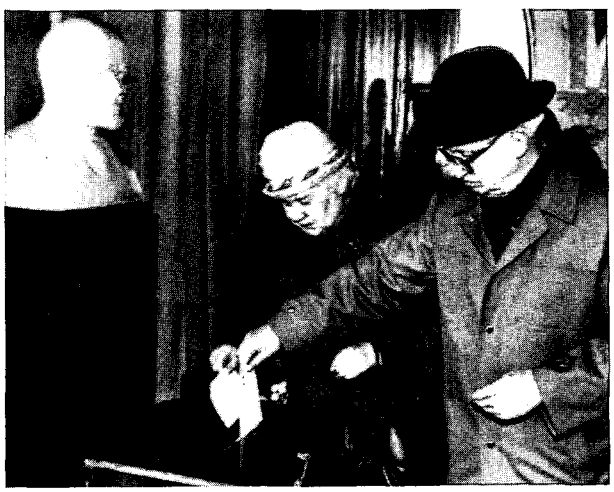
# Letting Go the Tiger's Tail

## Reforming the Soviet Economy Is Nearly Impossible, but There Is A Way.

BY EDWIN G. DOLAN

The Soviet elections in March have changed that country's political landscape. Coming at a time when it is increasingly apparent that the road to reform will be long and hard, the election results make it more likely that forward momentum will be maintained. It is correspondingly less likely that Gorbachev's *perestroika* will sputter to a halt without lasting change, as did repeated half-hearted reform efforts of the 1960s and '70s.

The election results carry three significant political implications. None has much to do with who will eventually hold a majority in the new Congress of People's Deputies or what powers, if any, that body will succeed in exercising.



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First, the very facts that the election was held, votes were counted, results were announced, and defeated candidates admitted defeat indicate that the Soviet Union has taken the first steps toward constitutional government. All this has seriously eroded the ability of the party establishment to play by its own rules regardless of the law.

That is all the more remarkable because the elections were held under rules that seemed to offer the *apparatchiki* plenty of opportunities to outmaneuver the opposition. Nomination meetings were packed, rigged, or moved without prior notice. Preelection gatherings dominated by party regulars weeded out many reformist candidates. In many social organizations and territorial constituencies, all reformist opposition was eliminated before voters saw the ballot on election day.

Yet even where voters received a ballot with the name of just one candidate, that candidate often lost—courtesy of the Soviet system of negative voting. Voters cross off the names of candidates they want to vote against, rather than casting votes for those they support. To win, a candidate must get a majority of ballots cast. If a majority of voters cross off all listed candidates, new nominations must be made and a new election held. ("Eat your hearts out, Amerikanskis," commented one cartoonist.) At least three dozen major local and regional party leaders who ran unopposed or with only token opposition went down to defeat that way, including the party chief of Leningrad, a candidate member of the ruling Politburo.

Second, the elections laid to rest the myth of a silent majority of ordinary workers and citizens opposed to reform. That majority supposedly yearned for the good old days of political stability, when economic prospects, although minimal, were at least predictable. Western commentators and émigré cynics repeated this myth so often that even many dedicated Soviet reformers wondered if the people were ready for democracy.

Yes, rank-and-file workers do have complaints about *perestroika*, ranging from longer lines for vodka to decreased job security. But in March, did they express those complaints by voting for the *apparatchiki* and against the reformers? As the Russians say, *vryad li*. Hardly. Landslides in the 80-percent-and-up range for many reform candidates and against unopposed establishment figures effectively dispel the notion that reform is supported only by a thin layer of journalists and intellectuals.

Third, the elections established and legitimized Gorbachev's left opposition. (In the Soviet context, promarket views are "left," Communist orthodoxy is "right.") Gorbachev is no longer poised dangerously at the left end of the legitimate political spectrum, as he was as recently as the June 1988 party conference. At least some of the candidates elected in March to the Council of People's Deputies are genuine radicals who support multiparty politics, full private property rights for farmers, national independence for the Soviet Union's constituent republics, and other ideas that remain anathema to Gorbachev himself. More numerous are delegates who, while accepting Gorbachev's moderate views of the appropriate scope of reform, would like to force its pace.

Gorbachev may or may not choose to ally himself with the left opposition when it comes to parliamentary tactics. But by lending an aura of moderation to proposals only recently seen as hair-raisingly radical, a legitimized left opposition increases his room to maneuver.

Despite a political boost from the elections, however, Soviet reformers still face some sobering economic realities. Hopes that *perestroika* would quickly revitalize the economy have by now been dispelled (and perhaps along with them, the fears of Western conservatives that reforms would give a quick boost to Soviet military power). Four major economic obstacles stand in the way of reform. They concern the country's capital structure, its organizational structure, the legal and cultural foundations of its embryonic private sector, and its fiscal and monetary mechanisms of macroeconomic balance.

THE CAPITAL STRUCTURE. Thirty years ago, when mathematical growth models were first becoming popular, American economists looked at the Soviet Union with envy. According to the models, multiplying a country's gross savings rate by an output-capital ratio gave you a projected percentage rate of growth. The Soviet economy had a gross savings rate on the order of 30 percent, compared with 10 percent or so for the United States. Consequently, if you drew growth curves for the two economies, no matter how low a base you started from for the Soviet Union, after a few decades the curves crossed and Soviet per capita GNP overtook that of the United States. Khrushchev evidently believed those growth models, if his bragging is to be taken as sincere, and a lot of smart economists at Harvard and MIT, who should have known better, believed them too.

Today, long after the growth curves should have crossed, they are as far apart as ever. We now have a clearer idea of what the Soviet Union has bought with all the blood, sweat, and tears entailed by its 30 percent gross savings rate. To oversimplify only slightly, it has bought an economy capable of turning out industrial inputs on an unsurpassed scale—more steel, more coal, more ton-miles of rail transportation, more tractors, more combines, more concrete than anyone else. But it has failed grotesquely to build a capacity for converting those inputs into outputs capable of satisfying human wants.

**Some of the candidates elected in March are genuine radicals who support multiparty politics, full property rights for farmers, and national independence for the Soviet Union's constituent republics.**

As reforms proceed, a substantial part of the Soviet capital stock, which does not meet world standards, will simply have to be abandoned. Profit incentives, freer wholesale trade, and greater access to Western technology may eventually make it possible to replace it with something better. But no shortcuts will make it possible to produce high-tech steels in the hulking blast furnaces of Magnitogorsk or bring in a good wheat harvest with obsolete and defect-ridden Soviet combines.

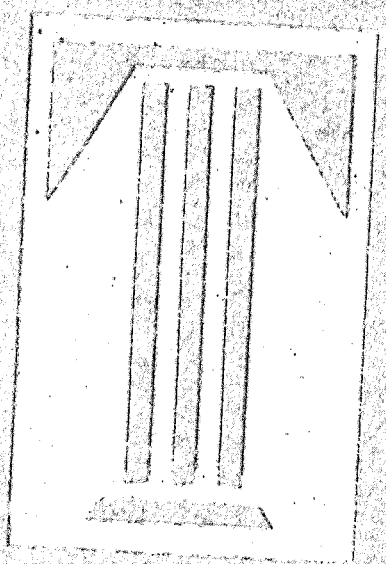
What is true of fixed capital is true to a substantial degree of human capital, as well. It is not that Soviet managers and workers lack training and education—many of them are very well trained and educated. The problem instead is that their skills have been developed to complement the existing stock of fixed capital and existing administrative institutions. Those skills cannot always be transferred to a new environment. Workers and managers will need to be retrained or replaced with a new generation of personnel better adapted to the more technology-oriented, market-oriented Soviet economy of the future.

THE ORGANIZATIONAL STRUCTURE. A market economy is not a uniform plasma of individuals interacting atomistically in response to market forces. Instead, the units that interact in the marketplace come in many sizes and shapes, ranging from tiny independent contractors to huge corporations with hundreds of thousands of employees. The distribution of units by size, purpose, and organizational form is far from random. It is, instead, the outcome of a long process of evolution in which economic organisms better adapted to their environment have displaced those less well adapted.

What, for example, is the optimal size, shape, and scope of a firm that produces automobiles? When we think of an auto maker, what comes to mind is an assembly plant where an engine is bolted to a chassis, a body is welded on, tires are mounted, and a finished car rolls out the door. But assembly is only part of a total production process that extends from coal and iron mines to the showroom floor. What tasks should come under ownership of the firm that does the assembly? What tasks should be assigned to independent contractors? What tasks should go to firms with an intermediate degree of independence, such as franchises or "captive" suppliers with dedicated facilities?

The answers were not obvious to the entrepreneurs who built the American auto industry. They experimented with every imaginable alternative. Henry Ford once tried to build an auto works integrated from the smelting of iron ore to the finished car. That was too much integration. It was an organizational nightmare that had to be abandoned. Meanwhile, the early General Motors was going to an opposite extreme. It didn't even make the bodies for its cars, buying them instead from Fisher Body, then a separate company. That was too little integration—GM eventually bought out Fisher and made it a subsidiary. At the retail end of the auto market, should an auto maker own a chain of factory outlets, or should it sell its cars indiscriminately to any retailer, as Cheerios are sold? Both have been tried, with the franchised dealer, substantially controlled but independently owned, as the most popular solution.

Economists who study such things maintain that for maxi-



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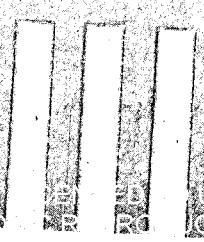
# TEMPLETON FOUNDATIONS HONOR ROLL FOR COLLEGES AND UNIVERSITIES

**Recognizing contributions to our understanding of free-enterprise economic systems; the philosophy of individual rights and responsibilities; and legal systems based on these concepts.**



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The Templeton Foundations Honor Roll recognizes achievements of colleges, college departments, and individual professors that contribute to our knowledge of free-enterprise economic systems, the philosophy of individual rights and responsibilities, and legal systems based on these concepts. The Honor Roll serves as a guide for students, alerting them to institutions where they can strengthen their understanding of these values and concepts. The Templeton Honor Roll program hopes to encourage further development of quality programs, scholarship, and teaching of ideas that underpin a society of free and responsible individuals.

**Preserving the American economic and political system depends on and requires an understanding of the basic principles of a social order based on free and responsible individuals. American universities play a key role in this education process.**

Jennifer Roback, Associate Professor of Economics at George Mason University (GMU), is a member of the Center for the Study of Public Choice and also coordinates GMU's economics graduate program. Dr. Roback teaches intermediate microeconomics, a graduate theory course, and plans to teach a graduate American economic history course.

Dr. Roback's current research has been on the origins of racial segregation and the Jim Crow laws. In a series of published articles on the Jim Crow laws, she investigated the extensive government regulations designed to hold down the newly freed slaves. As ex-slaves struggled to better themselves, white politicians passed legislation to block economic opportunity for blacks. Jim Crow laws were not an integral part of Reconstruction, as many historians have assumed; instead, they arose decades later, after white politicians received a Constitutional green light to pass and enforce legislation regulating economic activity.

One example of Roback's research is particularly striking. Though most of us learn about the government's role ending forced segregation of blacks and whites on buses and trains, few learn the origin of this practice.

PHOTOS: Jennifer Roback, Jack High and the Center for the Study of Market Processes by Lynn Dykstra; Robert Higgs by Blair Sietz; E.S. Savas by Buzz Freitag; Thomas Szasz by Stephen Sartori, Syracuse University.

INDIVIDUAL WINNER

# JENNIFER ROBACK

*I attended Oberlin College for two years, then left and worked for my brother's construction firm. It was during Nixon's wage and price controls, and I was in charge of ordering inventory. But nothing would ever arrive on time. We had to wait weeks and weeks for the simplest things, and I ordered far more than I wanted, because I knew we would get less than we ordered.*

*I went back to school at Ohio State and after a week in an economics class, I understood what was going on with my inventory control job under wage and price controls. Ohio State was strongly influenced by the "Chicago school" of economics, with its focus on the role of prices, freely functioning markets, and a deep distrust of government regulation.*

*Later, in graduate school at the University of Rochester, I fell in with a group of libertarian intellectuals, and learned that there was more to freedom than free markets.*

*I taught at Yale for five years, then came to George Mason University. I love it here. George Mason University has very good students. For young people interested in a strong grounding in market theory and ideas, I think GMU is one of the best places to go.*

Roback's research, published in the *Journal of Economic History*, showed that private streetcars and trains were originally integrated, since that was the least expensive way to run them. White politicians pressured private streetcar companies to segregate passengers, but were ignored. State and local politicians then passed laws mandating segregation. At first these too were ignored. A 1891 Georgia law, for example, required railroads to separate the races, but, notes Roback, "the law was customarily ignored by the Augusta Railway & Electric Company through at least 1898." Though private firms eventually gave in to stronger local ordinances demanding segregation, they continued for years to fight this uneconomical practice.

Roback concludes, "Streetcar companies either ignored the law or blatantly refused to enforce it. . . . There is little indication that streetcar companies initiated legislation or that they would have segregated in the absence of legislation."

INSTITUTIONAL WINNER

# CENTER FOR THE STUDY OF MARKET PROCESSES, GEORGE MASON UNIVERSITY

Twenty-five to thirty students participate in the Center for the Study of Market Processes at George Mason University, including undergraduates as well as first-, second-, third-, and fourth-year graduate students. The Center program involves students in course work, academic research, policy analysis, and teaching experience.

Center Director Jack High explains, "We have a strong educational focus, and a lot of our time and energy go into students. A lot of students want to write dissertations under the Center faculty."

The Center faculty also includes Associate Professor Don Lavoie, Assistant Professor Don Boudreaux, and Karen I. Vaughn, Chairman of the Department of Economics at George Mason University.

Center student and faculty research efforts emphasize applying economic insights to history. "Center students," says High, "are doing cutting-edge research in business history, investigating the interplay of competition and regulation in America's past." Of particular interest to Center researchers is the origin and evolution of regulatory agencies, and their often close relationships with the industries they regulate.

Center students and faculty, in their research, draw upon the insights of the Austrian school of economics, with its emphasize on entrepreneurship and the discovery process of markets. "An advantage of Austrian economic theory," notes High, "is that it directs researchers to look in places no one has looked before." The Center also draws upon two other schools of economic thought, the Chicago school, with its stress on the ability of free markets to harness the powerful forces of self-interest, and the Public Choice school, which applies these models of self-interested individuals to the actions of bureaucrats and politicians.

A forthcoming book, *The Making of an Economist*, notes, "From our interviews it became clear that most economics students (at the mainstream schools of MIT, Harvard, Chicago, Columbia, Yale, Stanford) were not intellectually excited about economic ideas. This is in direct contrast to the attitude of students at George Mason University where nonformalist training predominated and students had an enormous enthusiasm for ideas" (by David Calander, Middlebury College, and Arjo Klamer, Wellesley College).

The Center, like the economics department and George Mason University as a whole, stresses creativity and interdisciplinary study.

"The Center attracts students," says Jack High, "who are passionate about ideas and are willing to challenge established opinion. Students are drawn by the intellectually charged atmosphere at George Mason."

By creating an atmosphere for students freely to exercise their imaginations, talk freely about ideas, and pursue their interests in disciplined and scholarly research, the Center encourages the students to turn their talents to clarifying and resolving issues in economic theory and public policy.

"We measure our success," High emphasizes, "by the achievement of our students."

To develop and refine their research, students present their papers at the Center's regular Economics Colloquium and in other academic settings. Dozens of student papers have been published, several in academic journals, including the *American Economic Review* and the *History of Political Economy*.

*One of the pleasures of working at the Center is the quality of students we attract. Normally you have to be a top-10 school to get students of this quality. Some students come to GMU even though they have been accepted at schools like Chicago or UCLA. One student turned down a major scholarship to Harvard.... A distinguishing feature of the economics department here is the wide range of scholarship. Department faculty have strong backgrounds in philosophy and history and work closely with scholars in sociology and other fields.*

Students are also encouraged to research the economic implications of current public policy issues. Deborah Walker, a recent Center graduate student, had the highlights of her research on the comparable worth debate published in a number of newspapers, and later cited in *Forbes* and *Newsweek*.

The Center sponsors an interdisciplinary lecture series, at which lecturers from physics, anthropology, philosophy, history, and other departments lecture to Center and other economics students. Also, the Center publishes *Market Process*, a biannual publication containing articles and reviews written mostly by students and faculty and edited by Don Lavoie. Lavoie has gained an international reputation for his critique of socialist economic planning.

Other Center programs include a summer writing program at which students learn to use lively English to drive their points home, reading groups held each semester for students to explore and discuss the classic works of economics, and a new summer program for high school economics teachers.

The Center is responding to a demand for change in economic theory and policy. As economic and political pressures caused by past Keynesian theory and policy build, leaders in business, education, and government are demanding theory that is relevant and policy that works.

Center faculty includes (l to r) Don Boudreaux, Karen I. Vaughn, Director Jack High, and Don Lavoie.

INDIVIDUAL
HONORABLE MENTION

## ROBERT HIGGS

Robert Higgs, the Thomas F. Gleed Professor of Business Administration in the Albers School of Business at Seattle University (as of Fall 1989), focuses on the interconnections between political and economic systems. He is currently writing about the economics of defense.

His research closely fits the Templeton Honor Roll concept: "The elementary responsibility of government," argues Higgs, "is the protection of individual liberty and property. But the defense establishment has become so riddled with pork-barrel components, its role of providing protection is being overshadowed by the costs individuals must bear to sustain it."

Higgs was strongly influenced in the 1960s by Friedrich Hayek's *The Constitution of Liberty* and shifted his work from mainstream economic research to economic history and political economy. Higgs's *Crisis and Leviathan*, published in 1987 by Oxford University Press, documents the way emergency powers, once exercised by the federal government, are rarely given up when the crises recede. The book is being used as a text in many college courses.

Higgs has long taught U.S. economic history and political economy classes. He will now be teaching government and business classes.

*How can political institutions provide for the common defense without evolving into gigantic welfare programs that just say 'national defense' at the top of the page?"*

INDIVIDUAL
HONORABLE MENTION

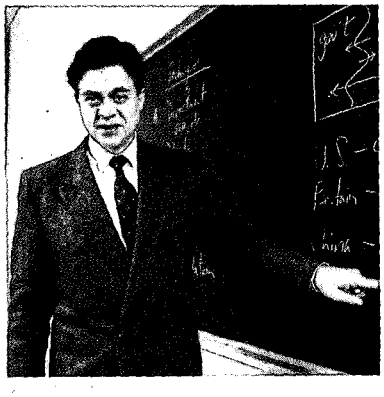
## E.S. SAVAS

E.S. Savas is Chairman of the Department of Management at Baruch College, City University of New York, and oversees the equivalent of 9,000 full-time students, 46 faculty, and 26 adjunct faculty. Savas divides his research into three areas: privatization in developing countries, the implementation of privatization, and privatization of municipal services, particularly local transportation.

*It is important to get away from the notion that privatization is some kind of negation of community feeling. The reverse is more likely—services provided through voluntary participation tend to provide a positive community-building force.*

On the connection between privatization and the Templeton Honor Roll concepts, Savas explains, "The fundamental philosophical basis of privatization is the freedom of the individual—the liberation of the individual from the state. Government provision of services that can be provided privately creates unnecessary constraints on the individual."

Savas teaches mostly graduate courses, and many of his students are hearing these ideas for the first time. Savas's book *Privatization: The Key to Better Government* is a text for a core MBA course and is read by undergraduate management majors.



INDIVIDUAL
HONORABLE MENTION

## THOMAS SZASZ

A professor of psychiatry at SUNY Health Science Center, Thomas Szasz is a prolific and long-time critic of the status quo in psychiatry. He believes he is applying in the psychiatric field the ideas of Friedrich Hayek, Ludwig von Mises, and Karl Popper. He argues that people who commit crimes are criminals; they are responsible for their actions.

Unfortunately, says Szasz, "modern psychiatry is entirely a creature of the state. It is state financed and state controlled. The mental health profession has every incentive to steadily expand the scope of behaviors defined as mental illness. If psychiatry were put back in the free market, where people can't be locked up against their will, and where individuals, not the state, pay for services, 90 percent of psychiatrists would be out of business."

*Modern psychiatry has been a major force undermining free will. The modern concept of mental illness is steadily expanding the range of behaviors where individuals are not held responsible for their actions.*

Szasz says he tries to focus attention on the lack of verifications for mental illnesses. His challenges have long been included in psychiatry readers and his ideas have had a wide influence.

Randy Simmons is Director of the Institute of Political Economy (IPE), which is a subunit of Utah State's political science department. Twelve faculty members—in political science, economics, and philosophy—help identify and involve students in IPE research projects. About 20 students at Ph.D., master's, and senior levels participate in the program.

One student, for example, became interested in Pacific Northwest fishery controversies and focused on the long-mismanaged Columbia River fisheries. Working with a Utah State faculty member, and building on earlier research work, this student's paper was recently published in a natural resource journal.

Another student, interested in transporation regulation, is spending a full year doing primary research that should result in a published paper that offers valuable lessons for current regulatory controversies.

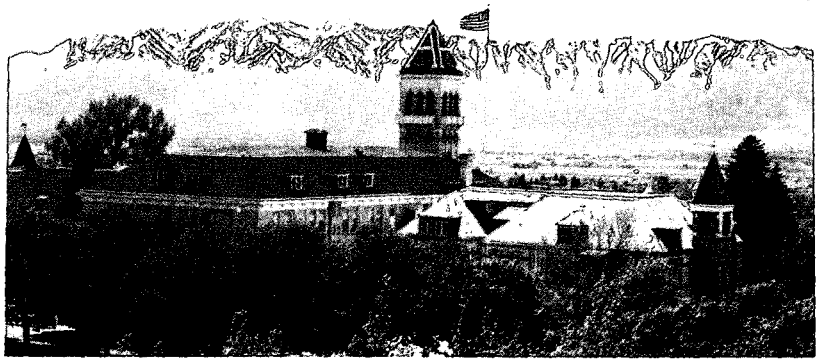
A group of IPE students launched an academic student newspaper recently. It includes articles and book reviews written and edited by students. Actually, the students seem to be using the newspaper in part to draw other students into researching and writing about market-oriented ideas and policies. The newspaper was entirely the students' idea, and the IPE provides encouragement and counsel—on the importance of being "even-handed," for example, especially at a public university.

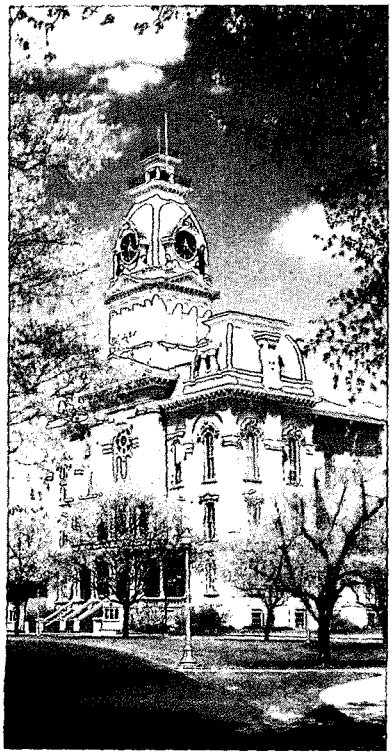
INSTITUTION HONORABLE MENTION

## INSTITUTE OF POLITICAL ECONOMY, UTAH STATE UNIVERSITY

Simmons notes: "As a teacher, you regularly discover students who reveal, by their questions, conversation, or papers, an interest in the workings and ideals of the free society. The IPE offers these students an opportunity to actively pursue their interests, both here at the university under faculty direction, and with research institutes in Washington, D.C."

"The IPE's job," says Simmons, "is to bring together good research ideas and the support that allows students to pursue them."





INSTITUTION HONORABLE MENTION

## HILLSDALE COLLEGE, MICHIGAN

Rated tenth in a recent *U.S. News and World Report* survey of regional liberal arts colleges, Hillsdale College in Hillsdale, Michigan, is almost alone among American colleges in remaining completely independent of government control. Because of that, says Hillsdale President George Roche, "we have attracted a board, faculty, and students who are closer to the Templeton Honor Roll principles." Hillsdale's various departments try to present all points of view, but make a point of emphasizing ideas relevant to understanding free-market principles.

Soon after his arrival at Hillsdale 18 years ago, Roche recalls, "the federal government began a major foray into education, saying that any institution where any individual receives federal funds should come under regulatory control. For 10 years we fought the government through the courts, and these were unifying years for us. The court battle also provided a growing national audience for Hillsdale."

Hillsdale has attracted academically stronger students and faculty in the past decade, and has developed a variety of programs for students, alumni, and supporters, to address many pressing public policy issues. Hillsdale's Center for Constructive Alternatives holds four major conferences each year, invites outside speakers to Hillsdale, and publishes *Imprimis*, whose circulation has grown from 1,000 to a current 200,000 for its articles on a variety of free-market, private-property issues.

mum efficiency, an economy must adapt its organizational structures to the tasks at hand, taking into account a multitude of variables. The organizational structure of the Soviet economy, however, has evolved to suit the needs of central planning, not those of the market. Even if we stipulate, charitably, that it is well adapted to its environment, there is no reason to think that the same structures will work well in a market context, any more than a fish, thrown up on the beach, can breath with its gills or use its beautifully streamlined fins to crawl back into the water.

Consider, for example, the tendency of Soviet firms to integrate backward even at the cost of producing on an uneconomically small scale. A Soviet manufacturing firm may have a shop where bolts of a certain hard-to-obtain size are machined by hand. A Soviet construction firm may have its own sawmill processing poorly suited timber from local forests. Such undertakings make sense in a system where a vital rule of self-preservation is to avoid putting yourself in a position where someone else's failure to fulfill a part of the plan jeopardizes your ability to fulfill your part.

**Khrushchev evidently believed those optimistic growth models, if his bragging is to be taken as sincere, and a lot of smart economists at Harvard and MIT, who should have known better, believed them too.**

Although the tendency toward self-sufficiency means some goods are produced on too small a scale, an opposite tendency toward giantism means that other goods are produced in one or two monster plants, where a market economy would have many competing facilities. The monsters make a certain administrative sense in the context of central planning. But if you suddenly tell Soviet firms that they are free to buy inputs wherever they want at prices negotiated with their suppliers, they may find that there is only one supplier with which to negotiate. What was an administrative convenience under a planned system becomes an unworkable monopoly when market relations are introduced.

In short, if it is to create a functioning market economy, the process of *perestroika* will have to include a restructuring of organizational forms as well as of physical and human capital. Cutting the existing organizational units free to sink or swim in a market environment is likely to make matters temporarily worse until old units are broken up, new alliances formed, new forms of contractual relations worked out, and so on.

LEGAL AND CULTURAL FOUNDATIONS. Converting the existing state-owned economy to market principles won't be easy, but an alternative has been suggested. That is to let a new, market-based system of private and cooperative small businesses grow up like furry little mammals darting between the legs of the dinosaurs. Gorbachev's reforms have featured some important initiatives in this area. Thousands of private taxis have hit the streets, and hundreds of cooperatives now supply consumers with everything from restaurant meals to artificial limbs. But even as the individual and cooperative sector has grown, it has become evident that serious legal and cultural weaknesses limit the role the private sector can be expected to play in the near future.

One problem is widespread resentment of the substantial incomes earned by successful cooperative entrepreneurs. Repeatedly, in letters to the press, in questions on phone-in TV shows, and elsewhere, variations on the following theme crop up: "The law permitting cooperatives was enacted so that they could supply the market with urgently needed goods and services. Instead, they have taken advantage of the law to enrich themselves."

Such comments reveal cultural attitudes far from conducive to the growth of a market economy. Supplying the market with goods and making a profit are seen as mutually antagonistic rather than complementary. The idea that the opportunity to get rich is a necessary incentive for obtaining a dependable supply of goods is not widely accepted. Soviet consumers seem to want cooperatives to come up with better potatoes than the state stores but not to charge higher prices for doing so.

What is more, there is a tendency to react to the high prices and incomes of the first wave of cooperatives by placing restrictions on prices, profits, and entry. The idea never seems to occur that relaxing restrictions and encouraging entry would increase the supply of goods, place prices and profits under increased competitive pressures, *and* make it possible for more people to share in the prosperity.

But public hostility is only the start of problems faced by individual and cooperative enterprises in the Soviet Union. The legislation that permits such enterprises to exist does not give them the right to participate on an equal footing with state enterprises in markets for capital equipment and material inputs. How, then, is a cooperative restaurant to buy a stove, an individual tailor to buy cloth, or a private plumber to buy copper pipe? One alternative is to buy them at retail, which puts the cooperatives in direct competition for scarce goods with ordinary consumers and heightens public hostility. The other is to buy them "on the left" at the wholesale level, which almost invariably entails bribes. That drives up the cost of doing business and further damages the coops' public reputation.

Finally, there is a growing problem with victimization of individual and cooperative enterprises by organized crime. Cooperative restaurants that don't pay protection money get their windows broken. Mafias that control public markets force farmers and craft workers to pay heavy fees for stall space that is supposed to be free on a first-come, first-served basis. Less sophisticated criminals resort to simple armed robbery. Of course, extortion, racketeering, and violent crime are far from unknown in Western market economies. Soviet entrepreneurs' lack of legal protection, however, renders their problems more serious.

Just a short time ago, almost every private business venture

was itself a crime. The police are at best slow to make the switch to a new role as defenders of private enterprise; at worst, they have allegedly conspired with the criminals victimizing the private sector. The court system, too, is ill equipped to help. In a system where many forms of private property were until recently illegal, theft is not always even technically a crime. When hostile police and court systems are considered together with public resentment toward profitmaking in general, cooperatives and private service workers end up being cast in the role of villains, while the extortionists who prey on them are seen in the role of Robin Hoods.

**No shortcuts will make it possible to produce high-tech steels in the hulking blast furnaces of Magnitogorsk or to bring in a good wheat harvest with obsolete and defect-ridden Soviet combines.**

The problems of urban cooperatives and individual service workers are shared, to some degree, by the private agricultural sector, on which Gorbachev is pinning hopes for a solution to food shortages. The same resentment toward success has manifested itself in the countryside in the form of burned barns and poisoned cows. Also, farmers working the land under new long-term lease agreements face problems similar to their urban counterparts when it comes to equal access to supplies and legal remedies for the criminal and administrative abuses to which they are subject.

MACROECONOMIC PROBLEMS. Soviet reform faces serious macroeconomic obstacles, as well, in the form of inflationary pressures that will very likely become more acute as time goes on. An economy's capital stock, organizational structure, and legal and cultural institutions place limits on the total supply of goods and services. Given limits on aggregate supply, if overall demand is not similarly limited, inflationary pressure will result as people bid up the prices of limited goods and services.

Western economies have used a variety of tools for managing aggregate demand, ranging from the classical gold standard to Keynesian monetary policy, to monetarist central banking by rules. None of them can boast of having found the perfect formula for steady, inflation-free growth. But the Soviet economy faces the even more serious difficulty that macroeconomic institutions for control of aggregate demand can hardly be said to exist at all.

The problem begins on the fiscal side with the fact that there is no sharp distinction between what we think of as government expenditure (expenditures for defense, civil service salaries, pensions, and the like) and the current and capital expenditures of state-owned industry. So industry cost overruns—whether due to overstaffing of enterprises, the slow pace of capital construction, or whatever cause—add to the state budget deficit. The resulting deficit, Soviet economists have now conceded, is far larger as a percentage of GNP than that of the U.S. government.

Turning to the monetary side of things, in the U.S. economy, the separation of monetary from fiscal policy has made it possible for growing budget deficits in the 1980s to coincide with moderating inflationary pressure. The Treasury finances its deficit by selling securities in a way that has no automatic impact on the money stock. The Federal Reserve is able to manipulate bank reserves and deposits independently of what the Treasury does.

In the Soviet Union, however, there is no separation of fiscal and monetary policy. Budget deficits are not financed by sales of securities to the public (except to a trivial degree through the sale of some savings bonds). Instead, they are automatically monetized. As a result, signs of inflationary pressure are everywhere evident.

In the past, prices were rigidly controlled so that inflationary pressure could manifest itself only in repressed forms—growing queues and shortages in the markets for consumer goods and accumulation of idle currency and savings account balances by the public. Those traditional forms of repressed inflation have grown more acute in the past year or two. Savings deposits have soared, and even such ordinary consumer goods as laundry detergent and razor blades are now rationed or unavailable.

But at the same time, reforms have begun to loosen the central authorities' grip on prices, so inflation is also taking a more open form. For example, to encourage innovation, makers of consumer goods have been allowed to set their own prices for newly introduced styles and models. However, many firms have taken advantage of this pricing freedom by charging higher prices for "new" products that differ from the old ones only in trivial ways. Completely uncontrolled prices in the cooperative sector have soared to even higher levels, fueling the popular perception of coops as unprincipled profiteers.

The inability of Soviet macroeconomic policy to control aggregate demand puts reformers in a quandary. From a microeconomic point of view, flexible prices based on supply and demand are an absolute necessity if there is to be any hope of increasing efficiency and the rate of innovation in state industry. Yet so long as aggregate demand is out of control, giving enterprises the freedom to set their own prices means that those prices will be flexible mainly upward. The experience of neighboring Poland is hardly encouraging in this regard. There, attempted economic reforms have led to rapid open inflation, reportedly over 60 percent in 1988. The inflation has led to political protests, strikes, and a general erosion of living standards. Reform-minded Soviet economists rightly fear that inflation could undermine the popular support that economic reform still enjoys.

Given the daunting economic realities facing Soviet reform, it is easy to spin out pessimistic scenarios. Gorbachev's *perestroika* could simply peter out, returning the country to the stagnation of the Brezhnev era. The threats that reform poses

to the power and privileges of the party elite could spark a conservative coup with Stalinist, anti-Semitic, and Russian-chauvinist overtones. Or efforts to force reform with inadequate macroeconomic discipline could lead to runaway inflation—the South American disease.

For a Western observer of Soviet affairs, the challenge is to come up with a credible optimistic scenario—one that leads, eventually, to a prosperous, free, and democratic Soviet Union. Here is what one might look like:

Begin with the political prerequisites of economic reform. Gorbachev, or someone substantially like him, must remain in power for some time to come. A conservative like Yegor Ligachev could lead the country only into stagnation—Upper Volta with rockets, as Vitalii Korotich, liberal editor of *Ogonyok,* calls that variant. A populist like Boris Yeltsin would most likely lead the country into inflationary chaos—Argentina with rockets.

But it is not enough simply for Gorbachev to remain in power. It is also necessary that he and the rest of the Soviet leadership be progressively radicalized, led to choose bolder options, less constrained by ideological taboos and the interest-group politics of the old elite.

The outcome of the March elections bodes well in this regard. The elections seem to leave Gorbachev in control of a centrist, reformist bloc flanked on the right by a weakened conservative faction and on the left by a greatly emboldened radical faction. For the moment, Gorbachev has room to maneuver on the left without being beholden to anyone.

Assuming, then, the proper correlation of political forces, what concrete economic policies might increase the chances of a successful transition to a more market-oriented and efficient system? A *sine qua non* is to find a way to control inflationary pressures. A three-part program, each part of which already has backers among Soviet reformers, might do the job:

**A conservative like Ligachev could only lead the country into stagnation—Upper Volta with rockets. A populist like Yeltsin would lead the country into inflationary chaos—Argentina with rockets.**

- Untangle the government's budget from that of industry by aggressively pushing the concept of self-financing for all enterprises. This must include a willingness to risk bankruptcy for hopelessly uneconomic enterprises.
- With the budgets decoupled, attack the remaining government budget deficit with radical cuts in defense expenditures and continued shrinkage of the bloated administrative apparatus.
- Develop innovative ways to absorb the excess purchasing power of the population. The overhang of purchasing power is far too great to handle with such palliatives as increased imports of consumer goods and further growth of the cooperative sector, although those measures could play a subsidiary role. A more radical approach would be to sell state-owned property to the public: allow tenants to buy their state-owned apartments, sell shares in industrial enterprises to their workers, and allow collective farmers actually to purchase farmland, not just lease it.

If inflationary pressures can be brought under control, the sputtering economic reform of state industry can be put back on track. Most importantly, reform must include thoroughgoing restructuring of the price system. Subsidies must be ended and both wholesale and retail prices set free to respond to supply and demand. But price reform can only be accomplished in an environment where aggregate supply and demand are balanced.

Meanwhile, although there will be no quick fix, a serious long-term attack should be made on impediments to the individual and cooperative sector, both farm and nonfarm. In part, doing so will require concrete steps to regularize the legal status of that sector and provide adequate police protection. But perhaps even more important, it will require clear moral leadership at the highest level. Although no Soviet leader on the foreseeable horizon can be expected to endorse capitalism as such, it must at least be established that a humane socialism cannot be built on the principle of leveling to the lowest common denominator and blind envy toward the success of one's neighbor.

Finally, the success of economic reform will depend on recognizing that the material payoff will not be rapid. In terms of gross national product, there is every reason to think that the Soviet economy will and should shrink before it begins to grow again. To some extent, the impact of a shrinking GNP can be cushioned by shifting resources from the military to the civilian sector and by paying more attention to the quality of consumer goods than to their quantity. But prospects for an across-the-board rise in living standards belong to the long term.

In the meantime, what can the Soviet leadership offer in return for the popular support it needs? The answer is simple: peace, freedom, truth, democracy, national and cultural autonomy, and most important of all, self-respect. Cynics both in the Soviet Union and the West have said that those things are valued only by a few intellectuals, that the *narod*—the people—have no use for them or even fear them. The March election indicates otherwise.

Despite the fact that Gorbachev has "only" given people a more open press, an end to jamming of foreign radio services, a bit of truth about Soviet history, and a chance to express themselves at the polls—only those things, and not a sausage in every bowl of borscht—the people did not vote against reform. The message they sent was to get on with it. Even if the road ahead runs downhill for a while, they see turning back to the past as no solution. ◼

*Edwin G. Dolan teaches economics at Gettysburg College in Pennsylvania and is the author of a leading economics textbook.*

# CONSUMERS ON*HOLD

## The Future Could Be Today If the Baby Bells Were Allowed to Grow Up

In the not-so-distant future, nearly every household with telephone service could reach out and touch, and be touched by, thousands of new consumer services through an inexpensive screen and keyboard plugged right into the phone outlet. Unfortunately, U.S. antitrust laws stand in the way.

The federal court supervising the 1984 breakup of AT&T effectively banned the local phone companies from providing a variety of services made possible by advances in computer and telecommunications technology:

- Consumers who now fumble through thousand-page telephone books could view the yellow pages on-screen and find business listings cross-indexed by dozens of different criteria. New businesses would not have to wait for new phone books to be published before they could be listed. Big-city residents would be spared the hassle of dealing with multivolume phone directories.
- Deaf people could use a screen and keyboard to carry on private phone conversations.
- Elderly people, shut-ins, two-career families, and others with limited mobility or time could compare prices for groceries and other goods, place orders, and have the goods delivered without leaving home.
- Both businesses and labor unions could carry on detailed and regular communications with employees who choose to work at home.
- Families buying homes could shop for the best mortgage rates and apply instantly without relying on a real estate agent.
- Students, scientists, and other researchers could use an electronic screen to read books located in libraries thousands of miles away.

BY JEROME ELLIG

Many of these services, such as electronic directories and shopping, are already available in other countries. Some are also available in the United States—to anyone who wants to invest a few thousand dollars or so in a personal computer, modem, and software, then spend aggravating hours figuring out how to use all three. The National Telecommunications and Information Administration reports that approximately 1 million individuals and businesses subscribed to such services in 1987. But the average person who cannot afford a personal computer has little hope of obtaining these services unless Congress or the courts lift restrictions that prevent local phone companies from getting into this business.

Companies currently offering "videotex" services (information services involving telephone lines and video screens) include Lockheed, Mead, IBM, Sears, J. C. Penney, Dow Jones, and several major airlines. Many videotex customers are large businesses, which have little trouble buying computers and other necessary equipment. Households that subscribe have a median annual income of $50,000, according to the Videotex Industry Association.

For most Americans, videotex remains only a dream, because District Court Judge Harold H. Greene, in his continuing control of AT&T's breakup, is stymying development of a market in information services.

The 1984 breakup of AT&T radically restructured the nation's telecommunications industry. To settle an antitrust suit initiated by the federal government 10 years earlier, the monolithic Bell System was separated into AT&T and 22 local telephone companies, most of which were organized into seven regional Bell operating companies. Each of the seven is a major corporation in its own right, with revenues ranging last year from $8.5 billion to $13.7 billion. The settlement opened long-distance phone service to competition, but the Federal Communications Commission (FCC) continued to regulate long-distance phone rates. AT&T also received permission to enter many unregulated businesses, such as computer sales.

The 22 local phone companies, often called the "Baby Bells," were supposed to concentrate on offering local phone service, which is regulated by the states. To this day, most states largely prohibit competition with these established companies. As Jack High, an antitrust economist and director of George Mason University's Center for the Study of Market Processes, notes: "The government was concerned with monopoly, but the real source of any monopoly power that AT&T had was its local phone monopolies. Instead of pressing the states to promote competition locally, the federal government broke up AT&T."

Also as part of the breakup agreement, the Baby Bells were forbidden from manufacturing telephone equipment, offering long-distance service, or providing information services such as videotex. In 1987 when it came time to review these three-year restrictions in the context of current circumstances in the industry, both the Justice Department and the FCC urged the court to free the Baby Bells to make equipment and provide information services. They based their recommendations in part on a massive, 3½-pound report, *The Geodesic Network*, compiled in 1987 by engineer and lawyer Peter Huber for the Justice Department.

Judge Greene refused to go that far, but he did permit the Baby Bells to develop "gateways," which let callers locate and use a variety of information services by dialing a single phone number. As part of a one-year trial program in Pennsylvania, for example, customers of Bell Atlantic can call one number and then select on their computer screens from a list of companies offering airline flight schedules, stock quotations, news, publications, legislative updates, and other information. Even though subscribers may use services offered by several different companies, they will generally receive only one monthly bill. The catch is that they must have personal computers and modems.

To create a mass market for information services, the number of potential consumers must be expanded beyond those who now own computers. Someone must widely distribute simple, low-cost terminals—video screens and keyboards—that plug into the phone lines. In other countries, this someone is the government. In France, which has the most widespread consumer videotex system, the government has given away 3.7 million terminals. Thirteen percent of French households are on-line.

The idea of the U.S. government spending millions of taxpayer dollars on a videotex-in-every-home program, which basically would help generate business for the telephone companies, is not politically feasible. Fortunately, neither is it necessary. For the same reason that cellular telephone carriers have been reducing the costs of telephones, the Baby Bells would be eager to provide videotex hardware if they could offer their own information services. In addition to the profits they would get from selling these services, they would save the huge cost of printing telephone books. Indeed, the Baby Bells are lobbying in Washington these days not for subsidies but simply for permission to compete.

Judge Greene continues to bar the Baby Bells from offering information services because he fears that they would engage in three types of anticompetitive behavior: predatory pricing, cross-subsidization, and discrimination against competitors. These are all more theory than reality.

"Predatory pricing" is antitrust lingo for a company selling its product below cost until it drives its competitors out of business, and then recouping its losses by charging monopoly prices. Under this theory, for example, the Baby Bells might sell stock quotations below cost and force Dow Jones's stock-quotation service to go out of business. Then the Baby Bells could jack up their own prices to make up for earlier losses—and then some.

There are a lot of problems with this theory. The Baby Bells would have to be willing to take large losses on the gamble that this predatory strategy would succeed, during which time consumers enjoy fabulously low prices. And even if they could drive out Dow Jones, they would have to figure out how to keep it and other competitors from reentering a profitable market.

**The Baby Bells are lobbying in Washington these days not for subsidies but simply for permission to compete.**

* * *

It's no wonder that in more than two decades of economic research in a wide variety of industries, predatory pricing has been found highly unlikely because it is generally unprofitable. In a 1982 *University of Chicago Law Review* survey of economic studies of alleged cases, including the famous Standard Oil case of 1911, Judge Frank Easterbrook concluded that "the antitrust offense of predation should be forgotten." Similarly, when asked in 1986 if the Federal Trade Commission should issue an annual report on predatory pricing, one commissioner replied the FTC might just as well issue an annual report on unicorn sighting.

At first glance, "cross-subsidization" sounds similar to predatory pricing. Both involve selling below cost. Under the theory of cross-subsidization, however, the Baby Bells would be content to sell stock quotations at a loss forever and would make up their losses by charging higher prices for ordinary local phone service.

Why would the Baby Bells ever *want* to cross-subsidize? It has to do with the way local phone rates are regulated. In most cases, governments limit phone companies' return on their investment instead of the prices they charge.

Economists have long recognized that a company thus regulated can sometimes make a greater profit by artificially inflating the amount of capital it uses—the more capital the company employs, the larger will be the total revenue generated by a given rate of return. One way to boost the capital base is to buy equipment to use in unregulated businesses, such as information services, while claiming to use it in providing local telephone service. Local telephone customers then end up subsidizing information services, and the Baby Bells are permitted by misled regulators to skim greater profits.

The FCC claims that with detailed standards and requirements, including cross-checks by independent auditors, it can prevent such fraudulent accounting. But even this intense scrutiny would not be needed if state regulators would change the way they regulate the Baby Bells. If cross-subsidization is the worry, regulators could put caps on telephone rates, rather than picking some acceptable percentage of profit. This would give the companies an incentive to cut costs to increase their return, rather than to pad their expenses.

Price caps are used extensively in England, and the FCC recently switched from rate-of-return regulation to price caps for AT&T's long-distance service. Already 18 states have initiated price caps or other flexible-rate experiments for long-distance service within their borders. Critics of this approach believe that any benefits from lower costs will never be passed along to consumers. Neither regulatory scheme—price caps or rate-of-return—is perfect, but price caps could remove the threat of cross-subsidization.

Like cross-subsidization, the third potential problem, discrimination, stems directly from the Baby Bells' local monopolies. Information-service providers must use the local phone lines to reach most households and many businesses. But if the Baby Bells are the only ones in the local telephone business, and are also allowed to enter the information business, they may use their control over local lines to keep competing information providers from reaching customers.

Here too the FCC believes that it can solve the problem. Through an elaborate set of rules, it prevents the Baby Bells from using muscle tactics: denying competitors access to the local phone lines, charging them a higher price than they charge themselves, or giving competitors inferior service.

Regulation of the Baby Bells would perhaps become more difficult if they were allowed to enter the information business, but certainly not impossible. Allowing the Baby Bells to develop this market, accompanied by regulation, is surely better for consumers than a blanket prohibition.

The problem with regulation, of course, is that in an imperfect world it can always be too much or too little. Fortunately, technological developments may one day make many local telephone monopolies—and thus the need for regulation—obsolete. Peter Huber's 1987 report for the Justice Department points clearly in that direction.

To see how, it's important to realize that in the old days of integrated AT&T, most callers reached out and touched Ma Bell the minute they grabbed the phone. Local calls were routed through local switchboards operated by AT&T-owned local phone companies. Even a call transferred by an employee on one floor of an office building to a coworker on another floor would be routed through AT&T equipment. Long-distance calls went through the local AT&T-owned switchboard to AT&T's long-distance division, which sent them to another AT&T-owned local switchboard in the destination city.

Nowadays, however, many business calls pass through "private branch exchanges." Businesses have established their own phone networks to transfer calls among offices, different buildings, and even groups of buildings. In Baby Bell regions, the number of phone lines served by private branch exchanges has more than doubled since 1982. More business phone lines

are served by private branch exchanges than by the conventional local phone companies (though most calls from one private exchange to another are still handled by the local phone company).

Other technologies are also carving out small but growing markets. Although not yet an economical substitute for conventional wire transmission, cellular phone systems have doubled in size since 1982. Microwave, fiber optic, and satellite systems capable of competing with the Baby Bells are also expanding.

Callers on these alternative networks still must use the Baby Bells for local calls to telephones not connected to the same network. But for long-distance calls, they can bypass the local phone company entirely. Private branch exchanges connected directly with AT&T, for example, now account for as many phone lines as any one of the seven Baby Bells. In short, the monopolistic part of the nation's telephone network is shrinking to a collection of local telephone loops, and even callers in many of these loops have the alternative of building their own local network.

In the future the Baby Bells may also have to deal with a giant intruding on their turf: cable television companies. Some day regulators may realize that two companies engaged in the business of running wires into people's houses might also be able to compete with one another in offering both telephone and television service.

Already, a political battle over this issue is simmering. FCC regulations, along with narrower legislation passed in 1984, combine with the AT&T breakup agreement to keep telephone companies out of the cable television business. But the Baby Bells are preparing to fight the $14-billion cable industry for a piece of this market. They have the support of cable programming producers such as the Motion Picture Association of America. Likewise, cable companies are well-suited to offering phone service, especially since the fiber-optic cable that may help transmit a new generation of "high definition" television signals would give cable companies the ability to transmit voice and data as well.

**If the Baby Bells are kept out of new markets, they could "become the U.S. Post Office of electronic telecommunications."**

* * *

These developments suggest that the most economical telecommunications system of the future will consist of a variety of competitors in both local and long-distance service. Telecommunications companies capable of adapting to this new environment will grow and prosper. Those artificially restricted to offering only certain types of services will lose markets to more-nimble competitors. Huber suggests that if the Baby Bells are prohibited from entering new markets, "it remains quite possible that [they] will become the U.S. Post Office of electronic telecommunications, absolutely essential to many, with steady or even growing traffic, but moribund nonetheless." No doubt such a realization explains why the Baby Bells, whose positive financial performance after the breakup surprised many investment analysts, are nevertheless scrambling to offer more than local phone service.

While the Baby Bells, federal agencies, and consumer groups appeal Judge Greene's 1987 decision, Congress seems ready to take matters into its own hands. Last year, Rep. John Dingell (D-Mich.), powerful chairman of the House Energy and Commerce Committee, introduced a concurrent resolution endorsing the idea of allowing the Baby Bells to offer information services and manufacture telephone equipment. It had 205 cosponsors. In April of this year, Reps. Al Swift (D-Wash.) and Tom Tauke (R-Iowa) introduced legislation to remove the restrictions.

The regulatory reform movement faces a tougher challenge in the Senate. Feuds with the FCC over the Fairness Doctrine and other issues unrelated to the Baby Bells have prompted Sen. Ernest Hollings (D-S.C.), chairman of the Senate Commerce Committee, to view most proposed reforms suspiciously. Nevertheless, Sens. John Breaux (D-La.) and Ted Stevens (R-Alaska) have pushed Congress to take up the issue, introducing a concurrent resolution similar to Dingell's last year, and Hollings may be mollified somewhat by the impending resignation of his chief nemesis at the FCC, Chairman Dennis Patrick.

No doubt many legislators are prompted to action by the immense consumer benefits promised by a less-regulated, high-tech telecommunications industry. Rep. Swift commented last year: "The question we must ask ourselves is whether existing government policy provides adequate incentives to U.S. industry to invest in this nation's economic and technological future. The restrictions imposed in the aftermath of the AT&T divestiture provide a negative answer to this question. We believe we can do better!"

As long as legislators fail to act, they must realize that federal courts and an independent regulatory agency, rather than Congress, are shaping the course of telecommunications policy. Congressional fear of losing control could well be the strongest force in making a wealth of information services available to every consumer. ■

*Jerome Ellig is director of public policy at Citizens for a Sound Economy Foundation. Phillip Mink, Nancy Oliver, and Michele Isele of the foundation's Legal and Regulatory Reform Project contributed to this article.*

# THE INCREDIBLE BOND MACHINE

BY ROBERT W. POOLE, JR.

To critics, it's the "Predators' Ball" or the annual "junk bond" conference. Officially, it was Drexel Burnham Lambert's 11th Annual Institutional Research Conference, held April 5-8 at the Los Angeles Beverly Hilton. For three and a half days, 3,000 buyers and sellers of high-yield bonds were regaled with presentations by Drexel clients, fast-paced videos on the "high-yield world," lectures from professors, talks by celebrities, rock music, and glitzy entertainment.

The annual conference was the creation of Michael Milken. But for the first time, the mastermind of the high-yield revolution was not present. It was only coincidence, perhaps, but the federal government chose to indict Milken on March 29. Under Drexel's plea bargain with the feds, Milken was put on unpaid leave the moment he was indicted. And, company lawyers apparently decided, that meant he could not deliver his customary keynote address or even set foot inside the hotel. As icing on the cake, the feds scheduled Milken's arraignment for Friday, April 7—in New York.

Nevertheless, his presence was very much in evidence throughout the conference. Drexel officials, from CEO Frederick Joseph on down, praised Milken's genius and regretted his absence. Cofounder "Tubby" Burnham, complaining that company lawyers had "destroyed" his speech, said he's had to endure the last two years in silence. But he stated flatly: "I'm proud to have hired Mike Milken. I regret very much that he can't be here." A three-minute "Milken Rap" video—and much applause—followed.

As for Milken's whopping compensation—reportedly some $1.1 billion in salary and bonuses over the past four years—Burnham had a simple reply: "We believe in incentives." The next day, outgoing chairman Robert Linton, who stressed that he had not checked this out with his lawyers, also defended Milken's compensation. IBM lost Ross Perot as a salesman because they would not adequately reward his achievements, said Linton; likewise, dealmakers Kohlberg, Kravis, and Roberts are now in business for themselves (as KKR) instead of for Bear, Stearns, to the latter's great loss. Boone Pickens had the last word about Milken's compensation. "Who is it that's griping about the fees? Nobody who paid them, including me."

**High-Yield City, 2089 A.D., rotated in the Beverly Hilton lobby to the tune of Starship's "We Built This City." Drexel clients' logos decorated the space city, and micro-TVs told their stories.**

Not everyone loves Mike Milken and the high-yield revolution in corporate finance that he and Drexel Burnham set off. Corporate restructuring has been labeled "paper entrepreneurship" by a wide range of critics, including academic leftists, neoliberals, CEOs of giant corporations, and even a number of conservatives. A recent subscription letter for left-wing *Mother Jones* magazine is fairly typical: "The current epidemic of corporate takeovers is gutting the American economy—costing us millions of jobs and billions of dollars in lost tax revenue." Conservative writer Ben Stein chimes in with the charge that whatever gains are achieved "come out of the hides of the laid-off, cutback and disenfranchised workers." The United Auto Workers has embarked on a major advertising campaign along similar lines.

This kind of rhetoric dominates mainstream news coverage of the subject. High-yield bonds are routinely described as "junk bonds." And a *Los Angeles Times* headline about the conference blared: "Raiders Pay Homage to Milken"—as if high-yield bond buyers were synonymous with corporate raiders.

Not surprisingly, an underlying theme of the conference was an attempt to set the record straight. Making presentations at the conference, in addition to popular speakers such as Jaime Escalante, George Gilder, Peter Grace, and Art Laffer, were academic experts on finance and corporate structure—people such as Harvard Business School's Michael Jensen and the University of Rochester's Gregg Jerrell, formerly chief economist at the SEC. They and their colleagues reviewed empirical findings on the effects of the high-yield revolution.

For example, contrary to popular perception, most "junk bonds" have not been deployed in hostile takeovers. Between 1980 and 1988, unsolicited takeovers accounted for only *5 percent* of the dollar value of new high-yield bonds. Most of the money—59 percent—was poured

RICK MEYER / LOS ANGELES TIMES

into companies' internal growth and development. The remaining 36 percent was used for various kinds of restructurings: mergers and friendly acquisitions, leveraged buyouts, or refinancings.

Nor has this saddled American corporations with unprecedented and dangerously high debt levels. Some firms have dramatically increased their ratio of debt to equity; but overall, corporate debt is a smaller fraction of total capital than in the 1970s. In part, this is because of a *$2-trillion* increase in the value of corporate equity since 1970—an increase that coincides with extensive corporate restructuring aided by high-yield finance.

This wave of restructuring has now been subjected to empirical research. The results are perhaps counterintuitive—and certainly counter to the popular view of ruin caused by greedy "paper entrepreneurs."

Looking at a sample of 43 large leveraged buyouts (LBOs) from 1984 to '86, economist Glenn Yago checked out corporate performance for at least two years before and after the LBO. He and his colleagues found substantial gains in total sales, sales per employee, operating income, and capital spending following the buyout. Although the parent company eliminated some positions as units were spun off, overall the LBOs reversed what had been a pattern of job loss in these companies.

What about R&D? A common criticism of LBOs is that the new managers will slash research and development, ignoring the future in order to cover huge new interest payments. But Steve Kaplan at Harvard and Abbie Smith at Chicago have found that very few of the firms involved in LBOs even do R&D (or enough of it to show up in financial statistics). On the other hand, they consistently increased capital spending following the LBO. These companies do not seem to be "mortgaging their future."

Harvard's Michael Jensen, probably the guru of corporate restructuring scholars, has found that the market value of companies taken over between 1975 and 1986 increased by $400 billion! This is not because shareholders are stupid. They put higher values on the restructured companies because the makeovers increase productivity. A major reason: the owners and the managers of the restructured firms are substantially the same people. Their major equity stake—averaging 60 percent—offers them a chance to make piles of money if the company does well (or to lose it all if it fails).

By contrast, traditional corporate management, with its separation of ownership and control, is a creation of the New Deal. Legislation of the era put major restrictions on investment and ownership by banks and financiers such as J. P. Morgan—whom Jensen terms "active investors." But the withdrawal of active investors left corporate management virtually unmonitored for 50 years, with very little penalty for wasting resources and building unproductive empires. Milken, Drexel, and the other architects of the high-yield revolution have recreated the role of active investors—people like the Bass Brothers and the Pritzkers and Coniston Partners, who are both owners and managers.

Some 20 years ago, law professor and economist Henry Manne came up with the theoretical concept of a market for corporate control. What Michael Milken has done is make that market an everyday reality. Jensen and others now refer to mergers, tender offers, spin-offs, buybacks, and LBOs as "corporate control activities."

One of the largest and most-discussed LBOs is that of Beatrice in 1986. At the time of its takeover by KKR, Beatrice was the quintessential conglomerate: over 100 businesses—ranging from tomato sauce and orange juice to rental cars and bras. Each new acquisition had led to new layers of bureaucracy and central administration. Aided by $2.5 billion in high-yield bonds, the new team of active owners aimed at massively restructuring the company to concentrate on its core food businesses. They sold off units such as Avis, Playtex, and Tropicana, raising some $6.9 billion—and retiring nearly all of the new debt in less than three years. In addition, CEO Frederick Rent-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schler told the conference, they slashed bureaucracy (headquarters staff cut from 455 to 97) and reduced overhead from $150 million to just $30 million a year.

High-yield financiers don't just restructure through takeovers, however. Hundreds of troubled companies, thanks to Drexel and company, are restructuring themselves to survive and grow. Western Union, for years at death's door, is today a Drexel high-yield customer. Under a new management team, the company is more than a year into a corporate makeover that is shifting its business from telexes and telegrams (who sends them anymore?) into value-added services such as electronic mail. While the company is not yet in the black, CEO Robert Ammon's presentation made a convincing case that it has turned the corner.

But the majority of the dollars from high-yield bonds is used to expand existing, healthy companies, especially high-tech and service businesses that do not qualify as "investment-grade" and therefore cannot get conventional bond financing. Of all U.S. firms with $35 million or more in revenue, only about 1,100 are considered investment-grade by rating agencies such as Standard & Poor's. That leaves over 21,000 sizable companies unable to tap the conventional bond market. These businesses gross $2 trillion a year and employ 15 million people. They include many of America's fastest-growing companies and virtually all firms headed by women and minorities—a fact not lost on Drexel's PR people.

Here, too, the data show surprisingly strong results. Lilli Gordon of Analysis Group Inc. and Harvard's John Pound studied a sample of firms making high-yield offerings that were larger than $50 million and that increased the companies' long-term debt level (average increase: 565 percent!). Among the 32 companies were M/A Com, MCI Communications, KinderCare, and Mattel. Comparing the years before and after the debt issue, they found substantial increases—exceeding the expectations of securities analysts—in five performance measures: sales, cash flow, earnings, dividends, and capital spending.

Most interesting of all are investors' views. A company's price/earnings ratio is considered a measure of its future value. For these debt-issuing companies, investors bid up their prices in the subsequent year enough to *double* their P/E ratios. The market reading on the debt issue was unambiguously positive.

Milken made clear in a post-conference interview how strongly he believes in the "democratization of capital" brought about by high-yield finance. Conventional investment—in oil, S&Ls, the Fortune 500, and the Third World—managed to lose $2 trillion over the past two decades. At the same time, the 95 percent of America's businesses that are not investment-grade gained $2 trillion (as measured by the Wilshire 5000).

Critics such as Ben Stein are particularly off-base on the effects of the high-yield revolution. Attacking "junk bonds" in *Barron's* and *The American Spectator*, Stein ignores the empirical record and instead cites national data showing poor *overall* productivity growth and competitiveness in the past two decades. But aggregate figures are still dominated by the 5 percent of investment-grade companies—which account for 63 percent of all corporate revenues and 81 percent of all funds raised in the public debt market.

And that's not where all the new jobs are coming from. As Richard McKenzie observed in *The Great American Job Machine*, the U.S. economy has created some 37 million jobs since 1970. The Fortune 500 have been downsizing; it's the small and medium-size companies—Milken's kind of companies—that have been creating jobs. High-yield bonds opened up the public capital markets to precisely the companies that are creating jobs, making innovations, and increasing productivity: in high-tech, in services, and even in old-fashioned businesses such as steel, with minimills. Traditionalist critics are totally and completely wrong about what's really been happening.

Where does that leave Mike Milken, the architect of this revolution? Despite facing the threat of up to 520 years in prison and $1 billion in fines—for alleged instances of stock parking, stock manipulation, and insider trading—Milken has dug in for a fight to the finish. Drexel felt it had no choice under the RICO law's threat of asset confiscation, but Milken shows no willingness to cop a plea and settle with the feds.

And it may just be that in throwing the book at Milken, former U.S. Attorney Rudolph Giuliani and the feds have gone too far. Two days after the indictment, a full-page ad in major newspapers announced, "Mike Milken, we believe in you." The ad listed its 90 sponsors, all heads of firms that have done business with Drexel and Milken. Others have spoken out in letters to the editor, criticizing the media's treatment of Milken as if he were a criminal. Even Ted Turner, one of the few alleged victims listed in the indictment, was center-stage at the conference praising Milken.

Mike Milken as a new American folk hero? It's not often a billionaire, even a self-made one, captures the public's imagination. But Milken's story is that of the classic American entrepreneur: someone who figured out a new way to do something—and became fabulously rich in the process.

In R. W. Grant's 1964 poetic saga, *Tom Smith and his Incredible Bread Machine*, envy greets the inventor of a machine that makes bread for a penny a loaf, solving the world's hunger problem. Tom Smith is attacked and prosecuted as a monopolist and exploiter—and ultimately jailed for antitrust violations. The parallel was not lost on Drexel; the company gave a copy of the book to each of 3,000 conference attendees.

Whether Mike Milken is ultimately judged a hero or a villain will say much about American values as we enter the 1990s. There's a battle going on—between individualistic entrepreneurship and coercive redistributionism, between managed state capitalism and truly competitive capitalism. We say we need lean-and-mean companies that are fit to excel in a competitive world. Milken unleashed forces that are helping those very companies. Does America reward or punish such innovation? Stay tuned.

*Robert W. Poole, Jr., is publisher of REASON and president of the Reason Foundation.*

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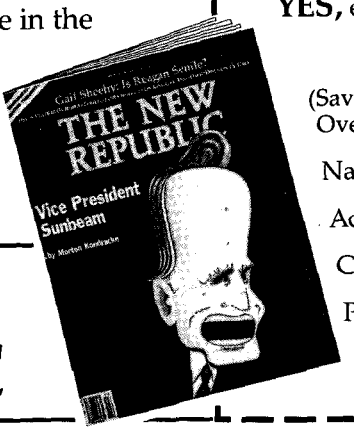


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**THE MINDS THAT MATTER**

# PLURALISM IN PERIL

BY DANIEL PIPES

Among its many significant aspects, the controversy over Salman Rushdie's novel, *The Satanic Verses*, marked the first major political initiative by Muslims living in the West. As such, it pointed up two facts: that the Muslims who have been immigrating to Western countries since the 1960s have now reached sizable numbers, and that these people may not wish to assimilate to Western values, especially political ones.

**Muslims now number 1.5 million in Britain, and they turned out in force to protest Rushdie's novel.**

Muslims now total about 11 million in Western Europe and 6 million in the United States. France has more than 3 million Muslims, West Germany about 2.5 million, the United Kingdom 1.5 million, and Italy almost a million. In most Western European countries, Muslims constitute the second-largest religious community. In France, they outnumber all non-Catholics combined, including both Protestants and Jews. A resident of Paris described the situation metaphorically: "For the price of a subway ticket, you can find yourself in Marrakesh."

As their numbers have grown, so have Muslims' political power and ambitions. These ambitions were strikingly symbolized about the time of the Rushdie crisis when French and German newsweeklies reported parallel statements on this subject. A French woman of North African origins told a reporter, "Tomorrow I will be mayor, the day after president of the republic." Meanwhile, a German politician sought to scare his conationals by announcing, "In the year 2000 we will have a federal chancellor of Turkish origins."

President or chancellor may be fanciful, but a Muslim named Mohammed Ajeeb has already served as lord mayor of Bradford, England. Especially in Britain, where most Muslims are citizens and most share a common origin in the Indian subcontinent, they carry significant electoral weight. The Labour Party has come to depend on them in several districts.

Thus, not coincidentally, the member of Parliament representing Bradford West, Max Madden, was at the forefront of appeasing the ayatollah. On one occasion, he filed a bill proposing to extend the British blasphemy laws to cover Islam. Later, Madden submitted a motion to Parliament calling on Rushdie to instruct his publishers to withdraw the book from sale; then he and two other Labour MPs (also representing sizable Muslim constituencies) urged a ban on further production of the book. Perhaps most symbolic of this appeasement was the fact that an elected politician, Barry Seal (Labour), the member of the European Parliament for Yorkshire West, spoke at the very rally in Bradford at which *The Satanic Verses* was attached to a stake and burned.

The presence of power quickly gives rise to the question whether that power will be used to change some fundamental aspects of Western life—and of how readily non-Muslim politicians will concede basic Western values in pursuit of votes at home and friends abroad. Two principles seem especially in jeopardy in the aftermath of the Rushdie affair: freedom of speech and secularism. Neither principle has much of a role in the Middle East or other parts of the Muslim world, and both came under attack by the great majority of Muslims living in Western countries.

Muslims in Britain have already succeeded in getting the government to establish single-sex schools for them that serve *halal* (the Islamic equivalent of kosher) foods and teach the Islamic religion. By a special act of Parliament, the Belgian government recognized aspects of Islamic law in 1974. Soon after, the British House of Lords decided that oral pronouncements of divorce along Islamic lines were valid in courts.

In some cases, at least, the intention to remake Western life is explicit. The editor of a Bengali-language newspaper in England, Harunur Rashid Tipu, explained that the leaders of the Young Muslim Organization seek ultimately "to build an Islamic society here." And in the editor's view, "With the speed with which they are building up their character, there is a high chance of success." An outside observer is not likely to agree with this assessment; nonetheless, the very fact that Muslims even conceive of building an Islamic society in Europe, rather than merely coexisting alongside Western culture, speaks of a dramatic change in expectations.

In response to these challenges, the British home secretary, Douglas Hurd, traveled to Birmingham in late February to address worshipers at the city's central mosque on the responsibilities of living in Great Britain. In addition to lecturing Muslims on the principles of free speech and the separation of church and state, he

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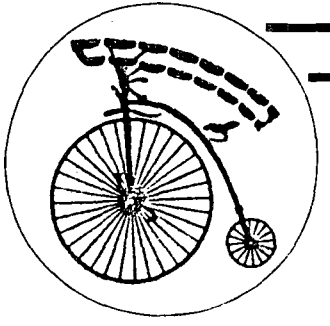

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asked them to make greater efforts to integrate their children into society. Many others echoed his sentiments. Ian Davidson, writing in the *Financial Times*, warned Muslims that "they may be entitled to their own distinct cultural and religious identity; but only within the limitations permitted by the law."

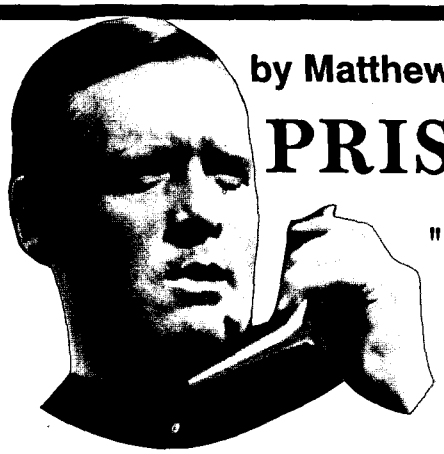
Beyond the xenophobes and the demagogues who cashed in on the whole business, the Rushdie affair confronted Western and Islamic civilizations in a manner which had not been seen in centuries. In the West, writers referred easily to the "unquestioning, perhaps fanatical" faith of the East. And for the first time in many years, the Western press resorted to the term "the civilized world," which it contrasted with the Muslims.

On the Muslim side as well, the Rushdie incident brought out atavistic attitudes. The ready support offered Rushdie by Western governments was almost universally interpreted in the Muslim world in an anti-Islamic light. Insistence on freedom of expression was seen as a covert endorsement of Rushdie's views on Islam. This in turn confirmed the Muslims' deepest suspicions about Westerners still harboring Crusader impulses. "The whole affair of that diabolical book has reactivated age-old religious and intellectual intolerances towards the Muslims that are reminiscent of the dark days of the Crusaders," wrote one commentator in the *Jordan Times*.

The issues raised by the Rushdie affair were explosive, touching on the basic values in each civilization, and made more explosive by the presence of substantial numbers of Muslims in the West. To those imbued with Western ideals, it was a question of what is possibly the single most important principle in modern liberal ideology, freedom of speech. To those imbued with Islamic ideals, it was the equally important question of the dignity of Islam. Westerners stood together, by and large, and so did the Muslims. And far more than Americans, Europeans came to feel that the combination of a rapidly expanding Muslim population in the West and their growing assertiveness added up to a momentous challenge.

No one can say, at such an early date, what the consequences will be, but the matter seems likely to go one of two ways. Either Westerners will stand by their principles, especially those of free speech and secularism, leaving the newcomers no choice but to accommodate. Or Westerners will not stand up, in which case (as one analyst put it), "the political influences of Libya, Lebanon, Saudi Arabia, and Iran will begin to be felt," and then those Western principles will begin to erode.

*Daniel Pipes is director of the Foreign Policy Research Institute in Philadelphia and editor of* Orbis, *its quarterly journal. His most recent book,* The Long Shadow: Culture and Politics in the Middle East, *has just been published by Transaction.*

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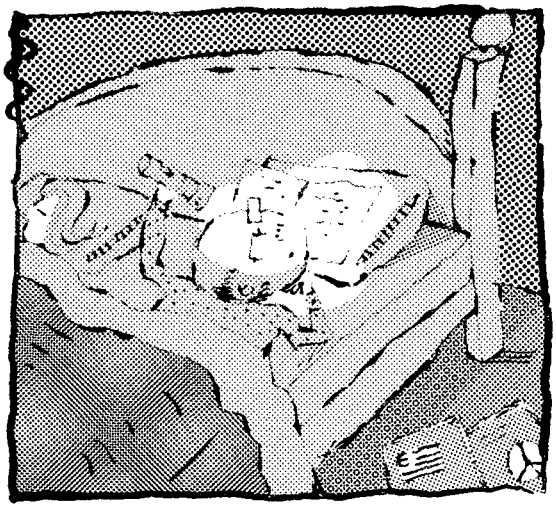
# LEFT-WING BANANAS

BY MARTIN MORSE WOOSTER

History will judge the "Reagan Revolution" of the 1980s an intellectual, not a political, triumph for the American right. The government grew at about the same rate it did during the Carter years; few programs were eliminated.

But in the war of ideas, the right steadily gained ground. I don't think books of the caliber of Charles Murray's *Losing Ground* or Paul Johnson's *Modern Times* would have had the impact they had if published in the 1970s: the statists of the era were less exhausted.



So the American left is on the defensive. In fact, there is a continuing debate among leftists about which journals are still politically correct. Many now consider *The New Republic*, for example, part of the conservative movement. ("The sorry state of *The New Republic*," Alexander Cockburn wrote in a February 20 column in *The Nation*, "arouses natural emotions of pleasure and relief.") Some even regard the *Washington Post* as a conservative publication. In the February 1989 *Progressive*, former *Post* reporter John Hanrahan quotes Ralph Nader as saying that the *Post* is now "a right-wing paper."

In the April *Progressive*, Matthew Rothschild, managing editor of that journal, lists seven publications he considers part of the American left—*The Progressive, The Nation, In These Times, Dissent, Mother Jones, Socialist Review,* and *Social Policy*. It's interesting what's not on the list. Both major American general magazines—*The Atlantic* and *Harper's*, are excluded. (*The Atlantic* is part of the old-line, Adlai Stevenson left; *Harper's*, part of the "progressive," Jesse Jackson left.) Both *The New Yorker* and *The New York Review of Books* are also, in Rothschild's eyes, outside the leftist mainstream. But his list is a manageable starting point.

I'd eliminate three of the journals on Rothschild's list. *Social Policy* is the left-wing equivalent of *The Public Interest* and as such is not primarily a political journal. *Mother Jones*, after extensive retrofitting, has emerged as a mixture of articles about Central America and profiles of politically acceptable celebrities. And I find *Socialist Review* unreadable. So what do *The Nation*, *In These Times*, *The Progressive*, and *Dissent* tell us about the American left?

Their major weakness is an inability to adequately critique opposing views. Most leftist writers respond to conservative and libertarian arguments either by name-calling or dismissal as "extreme" viewpoints unworthy of further consideration.

Consider "The Phony Case Against Rent Control," by John Atlas and Peter Dreier, in the April *Progressive*. Atlas, a lobbyist, and Dreier, a Boston public-housing official, decide to defend rent control largely by attacking William Tucker, who has charted rent control's devastating effects in *National Review*, *The American Spectator*, and REASON.

Tucker, we learn, "has sold himself as a housing expert...despite having no prior expertise in housing policy." What's more, he has received grants from the Cato Institute and the Manhattan Institute. Even more damning in Atlas and Dreier's eyes, "When Morton Downey, Jr. did a show on rent control, he invited Tucker, who dutifully bashed tenant activists."

What about Tucker's charge that rent control subsidizes the wealthy and promotes homelessness? "Most people, using common sense, recognize that rent control helps prevent homelessness," say Atlas and Dreier. Without rent control, landlords would scheme to raise prices as high as possible, they say, kicking poor people into the gutter. As for Tucker's observation that Mia Farrow, Ed Koch, and other wealthy New Yorkers live in rent-controlled apartments, Atlas and Dreier counter that most New Yorkers in rent-controlled apartments have annual incomes below $25,000.

Let's look at these charges. Yes, Tucker's research was initially funded by market-oriented think tanks. So what? Comparable left-wing groups (the Ford Foundation, Carnegie, etc.) are far larger. What matters is what Tucker says, not who paid for his work. And just because he appeared on "Morton Downey, Jr." does not mean he agrees with Morton Downey. Do Atlas and Dreier believe that everyone who appears on "Firing Line" agrees with all of William F. Buckley's views?

I'm most bothered by the charge that only people with "prior expertise" in housing policy can write on the subject. Like most of sociology, it isn't an arcane discipline; readers of intellectual magazines can follow debates on housing, welfare, and other social issues provided the authors write in clear, precise prose. (That's one of the reasons why *Losing Ground* was so successful.) We need more people writing about housing; it is too important to be left to mandarins.

What about Atlas and Dreier's defense of rent control? "Common sense" tells *me*

BOB ECKSTEIN

that expanding the supply of a good results in its price falling. They claim that in the absence of rent control. "landlords operate as a monopoly," but they do not cite a single case where landlords successfully fixed prices. What's more, the authors present no statistical evidence that rent control works. It's as if they believed that *Progressive* readers are mystified by numbers.

I've discussed the Atlas-Dreier article at length because it illustrates the worst tendencies of left-wing journalism. Others commit the same errors. It is particularly irksome that leftists tend not to attack any government program unconnected with the military.

For example, Nancy Kleniewski, in the Winter 1989 *Dissent*, correctly limns Urban Development Action Grants as a developers' boondoggle. *But*, she argues, the program can be saved with lots of regulations, such as a requirement that cities mandate "a mix of incomes, ages and ethnic groups." There are so many corporate-welfare programs that can be taken on by both the left and the right—agricultural marketing boards, World Bank loans, gasohol programs. But coalitions can only be built if the left reexamines its belief about the inherent effectiveness of government.

When left-wing magazines are not attacking conservatives, they can be quite good, in some cases covering areas of American life that others miss. For example, most journals ignore unions, even though these organizations still have millions of members. Leftist publications, however, still critique unions regularly. I particularly liked "Union Blues," by Peter Downs in the January *Progressive*, a persuasive analysis of how the United Auto Workers suppresses dissent. Leftists are also sound critics of the War on Drugs. The best was Jefferson Morley and David Corn's "Drug Czars We Have Known," in the February 27 *Nation*, which examined the careers of the 11 previous drug czars. Did you know that Carlton Turner, drug czar from 1985 until 1988, resigned after spending tax dollars on "scientific" studies linking marijuana and homosexuality?

But most leftist publications are like decaying bananas; one has to cut away a lot to get to the tasty parts. There is one exception to this rule—*In These Times*.

Unlike others in this camp, which are mainly opinion magazines, *In These Times* is primarily devoted to news and information, ensuring that it covers important stories you won't get elsewhere. For example, the April 5 issue included a lengthy interview with American Economic Association president Robert Eisner, who has sensible insights on how the federal budget deficit is routinely exaggerated. Other informative pieces in recent issues include one on the rise of black talk-radio stations and a report on the annual meeting of the American Philosophical Association.

*In These Times* also has some of the left's best political analysts. John Judis does the inside-the-Beltway beat as well as anyone; he's particularly good at placing events in historical context. (See the Winter 1989 *Dissent*, where he compares the battles between the Dukakis and Jackson wings of the Democratic party to the fight between William McAdoo and Al Smith in the 1920s.) *In These Times* carries Alexander Cockburn's syndicated *L.A. Weekly* column, which is more interesting than his efforts in *The Nation* because he stops ranting about Middle East politics and spends more time commenting on his mail. For example, he notes in his March 29 column a document about how "our borders are out of control" that included as signatories Notre Dame University's Rev. Theodore Hesburgh, teachers' union leader Albert Shanker, and machinists' union president William Winpisinger—gentlemen not previously known to be members of the "stop-those-Mexicans" mob.

*In These Times* is the best left-wing publication and the only one worth the subscription price. But I urge REASON readers to sit down with a stack of *The Nation* or *The Progressive* in the library and leaf through them. You will be frequently infuriated—and, more often than you might expect, pleased.

*Martin Morse Wooster is president of Northfield Associates, a research and consulting firm based in Silver Springs, Maryland.*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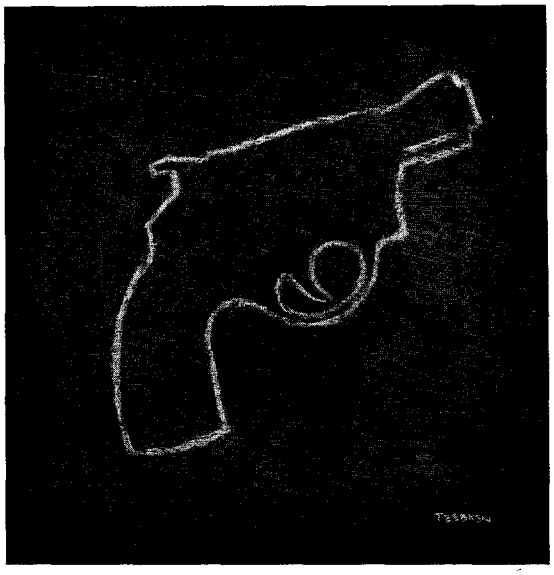
# GUNS AND SPUTTER

BY JAMES D. WRIGHT

Someone once wrote: "Statistics are like a bikini. What they reveal is suggestive, but what they conceal is vital." The problem is demonstrated by the most recent entry in a long line of scientific research purporting to show a causal link between gun availability and homicide. Funded by the federal government and published last year in the *New England Journal of Medicine*, the study compared homicide rates in Seattle and Vancouver and suggested that a handgun ban "may reduce the rate of homicide in a community."



The nine medical doctors who published "Handgun Regulations, Crime, Assaults, and Homicide" essentially reasoned in three steps: (1) Despite many historical, social, and demographic similarities, (2) Vancouver has a markedly lower homicide rate (3) because its stricter gun regulations make guns less available. The second step in their reasoning seems indisputable. The overall homicide rate in Seattle (for the period 1980-86) was 11.3 per 100,000 population, compared with 6.9 in Vancouver. Homicide is definitely more common in Seattle. The question then becomes, Why?

The authors present a believable although not entirely accurate case to support the notion, as claimed in the third step of their reasoning, that Vancouver's handgun regulations are much more stringent. But their evidence on the difference in gun *availability* is indirect and unpersuasive; indeed, they acknowledge that direct evidence on the point does not exist. They offer two fragments of inferential data in support of the claim that guns are more available in Seattle; but for all anybody knows as a matter of empirical fact, the opposite could be true. We are therefore being asked, at the conclusion of the study, to believe that a difference in gun availability explains the difference in homicide rates when a difference in gun availability has not itself been established.

Indeed, the situation is even more troublesome. The first of the two indirect bits of evidence is a difference between the number of concealed-weapons permits issued in Seattle and the number of restricted-weapons permits issued in Vancouver. Differences between the two cities in the permit regulations render these two numbers strictly noncomparable.

The second bit of evidence is "Cook's gun prevalence index," which stands at 41 percent for Seattle but only 12 percent for Vancouver. Cook's index, however, does not measure the relative prevalence of gun ownership in various cities. It measures gun misuse—it is an average of the percentage of homicides and suicides involving firearms.

In the present case, the index shows only that in homicides and suicides, firearms are more likely to be used in Seattle than in Vancouver. To take Cook's index as a measure of general firearms availability, it must be assumed that the proportional involvement of guns in homicides and suicides is directly related to their relative availability in the general population. But this is exactly what the authors are seeking to prove. To assume what one is seeking to prove, then to "prove" it on the basis of that assumption does not constitute scientific evidence for anything.

Even if we were to grant, on the basis of no compelling evidence, that guns are less common in Vancouver, we might still question what causes what. The authors attribute Seattle's higher crime rate to a higher rate of gun ownership. But it might well be argued that low crime or homicide rates reduce the motivation for average citizens to obtain guns—in other words, that crime rates explain the variation in gun ownership, not vice versa.

In fact, it was once commonly argued that Great Britain's low rate of violent crime was a function of that nation's strict gun laws and the consequent low rate of gun ownership—until British researcher Colin Greenwood found that Great Britain had enjoyed low rates of violent crime for many decades before strict firearms controls were enacted. To invoke an ancient methodological saw, correlation is not cause.

Nor do the problems with this study end with its lack of direct data on gun ownership. The authors say Seattle and Vancouver are "similar in many ways," implying that they differ mainly in gun availability, gun-law stringency, and crime rates. This is an evident attempt to establish the *ceteris paribus* condition of a sound scientific analysis—that "all else is equal" among the things being compared.

Clearly the two cities are similar in some ways, but a closer look reveals differences in ways that are relevant to their respective crime or homicide rates. The cities *are* closely matched in what percentage of their population is white (79 percent and 76 percent). But Seattle is about 10 percent black, while Vancou-

TIM TEEBKEN

ver is less than 0.5 percent. Vancouver's minority population is overwhelmingly Asian. So although the authors show that the two cities are approximately comparable on a half-dozen readily available demographic indicators, they have not shown that all potentially relevant sources of variation have been ruled out.

In fact, the difference in racial compositions of the two cities is particularly relevant in light of the study's breakdown of homicide rates according to the race of the victim. For the white majority, the homicide rates are nearly identical—6.2 per 100,000 in Seattle, 6.4 in Vancouver. The differing overall homicide rates in the two cities are therefore due entirely to vastly different rates among racial minorities. For blacks, the observed difference in homicide rate is 36.6 to 9.5, and for Hispanics 26.9 to 7.9. (Methodological complexities render the Asian comparison problematic, but it too is higher in Seattle than in Vancouver.) Racial minorities are much more likely to be the victims of homicide in Seattle than in Vancouver; the white majority is equally likely to be slain in either city.

Since the nearly 2:1 initial difference in homicide rates between the cities is due exclusively to 3:1 or 4:1 differences between minority groups, it is fair to ask why the postulated difference in "gun availability" (or gun-law stringency) would matter so dramatically to minorities but not matter at all to whites. Can differential gun availability explain why blacks and Hispanics—but not whites—are so much more likely to be killed in Seattle than in Vancouver? (Studies in the United States, incidentally, do not show large or consistent racial differences in gun ownership.)

Or are other explanations more plausible? Could the disparity between Canadian and American rates of poverty among racial minorities have anything to do with it? What are the relative rates of drug or alcohol abuse? Of homelessness among each city's minority population? (The city of Seattle runs the largest shelter for homeless men west of the Mississippi.) Unemployment among young, central-city, nonwhite men in the United States usually exceeds 40 percent. What is the comparable Canadian percentage?

The crucial point is that Canada and the United States differ in many ways, as do cities and population subgroups within the two countries. Absent more detailed analysis, nearly any of these "many ways" might explain part or all of the difference in homicide rates. In gross comparisons such as those between Seattle and Vancouver, all else is *not* equal.

The authors of this study acknowledge that racial patterns in homicide result in a "complex picture." They do not acknowledge that the ensuing complexities seriously undercut the main thrust of their argument. They also acknowledge that "socio-economic status is probably an important confounding factor in our comparison," remarking further that "blacks in Vancouver had a slightly higher mean income in 1981 than the rest of Vancouver's population." Given the evidence presented in the article, it is possible that all of the difference in homicide rates between Seattle and Vancouver results from greater poverty among Seattle's racial and ethnic minorities. But the authors pay no further attention to this possibility, since "detailed information about household incomes according to race is not available for Vancouver."

**Given the evidence presented, it is possible that all of the difference in homicide rates between Seattle and Vancouver results from greater poverty among Seattle's minorities. But the authors pay no further attention to this possibility, since "detailed information about household incomes according to race is not available for Vancouver."**

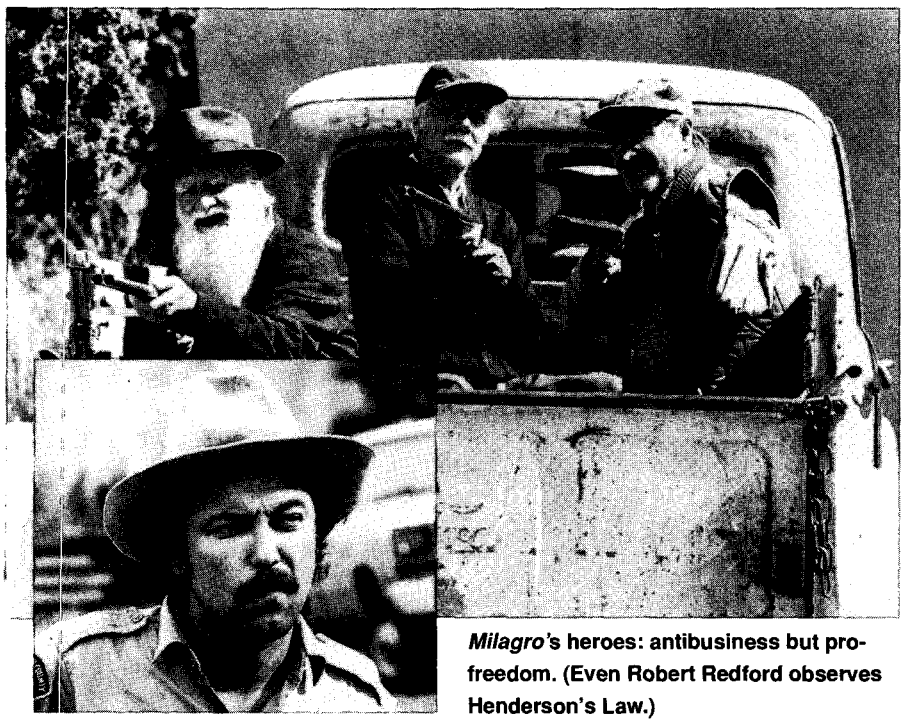
The largely insurmountable methodological difficulties confronted in gross comparative studies of this sort can be illustrated with a simple example. If one were to take all U.S. counties and compare them in terms of (1) prevalence of gun ownership and (2) crime or homicide rates, one would find an astonishing pattern: Counties with more guns have less crime. Would one conclude from this evidence alone that guns actually reduce crime? Or would one insist that other variables also be taken into account? In this example, the "hidden variable" is city size: Guns are more common in small towns and rural areas, whereas crime is a big-city problem. If researchers failed to anticipate this variable, or lacked the appropriate data to examine its possible consequences, they could be very seriously misled. In the study at hand, the authors matched two cities for size but not for minority poverty rates or other hidden variables, and their results are impossible to interpret.

In the editorial "Firearm Injuries: A Call for Science" accompanying the study, two officials from the Centers for Disease Control lauded the authors for applying "scientific methods" to a problem of grave public health significance. But in attempting to draw causal conclusions from nonexperimental research, the essence of scientific method is to anticipate plausible alternative explanations for the results and try to rule them out. Absent such effort, the results may well seem scientific but are little more than polemics masquerading as serious research. That this study is but one of a number of recent efforts—all employing practically identical research designs and published in leading scientific journals—is cause for further concern.

*James D. Wright is professor of sociology at Tulane University. He has researched and written extensively on the relationship of firearms and crime.*

## Henderson's Law of Heroic Movies

BY DAVID R. HENDERSON



***Milagro*'s heroes: antibusiness but profreedom. (Even Robert Redford observes Henderson's Law.)**

"David, I rented a movie for tonight that looks interesting but I'm not sure you'll like it. It's called *The Milagro Beanfield War*. Robert Redford directed it, and I think it's left-wing and antibusiness."

"Really?" I asked my wife, Rena. "What is it about?"

"It's about these poor Chicano farmers in New Mexico or somewhere who steal water from a big business to irrigate their beans. The movie treats them as heroes."

"I bet they don't steal it," I beamed confidently. "I'll bet you that they just reclaim it after the big business, with the government's help, had already grabbed their water."

Rena looked at me skeptically. Why was I so sure? Because of Henderson's Law of Heroic Movies. Henderson's Law states that antibusiness movies that have heroes are always based on, or consistent with, a libertarian premise.

I formulated this law after seeing and enjoying a lot of movies that liberal friends expected me to dislike on ideological grounds. Sure enough, my law was confirmed by *The Milagro Beanfield War,* which is, incidentally, not only profreedom and heroic but also very good.

The movie *A Christmas Carol*, based on Charles Dickens's novel, is another example. Because it is an attack on businessmen, liberal friends are sometimes surprised that I love it—especially the 1951 version with Alastair Sim. But *A Christmas Carol* is profoundly profreedom. It does not question Scrooge's right to keep his money for himself but rather his wisdom in denying himself the pleasure of giving. In one of the final scenes, Scrooge dances around the room with joy because he realizes it is not too late to change. He is excited, not because he can now go out and vote to have the government spend other people's money but because he can now personally, voluntarily help those around him.

But why is Henderson's Law true? Why aren't movies with heroes based on antilibertarian premises? There are two reasons. Both should give us hope for our cultural and political future.

First, even though many movie scriptwriters and directors are left-wing, they must think that a heroic antilibertarian movie will not make money. They know—implicitly or explicitly—that people who want a heroic movie want to have no qualms about supporting the hero. So they must enlist the hero in a just cause. The only kind of just cause that they can be sure the public will support is one based on an individualistic view of justice. Because the public, although most of them don't know it, have a profoundly libertarian view of justice.

Skeptical? Then consider. Which plot would stir the juices of American moviegoers: one where the hero stole money from a corporation that succeeded by being honest with people, or one where the hero stole money from a corporation that had been cheating people? To ask the question is to answer it. The second movie is the only possible contender.

Push the analysis further. Normally, when a corporation cheats someone, the person cheated can sue. But sometimes that doesn't work. When it doesn't, it is typically because the legal system is not doing its job of protecting people from fraud. So the hero who steals money from the cheating corporation is trying to achieve the profreedom outcome that the legal system was supposed to provide.

The second reason that left-wing

screenwriters and directors often adopt libertarian premises is that they themselves are profoundly libertarian. To believe in heroism is almost necessarily (Ayn Rand would probably cut the *almost*) to believe in freedom. But writers and directors usually don't understand how the market works, and they think that big corporations, shielded by a corrupt legal system, are always ripping people off. In other words, they are antibusiness because of profreedom values coupled with a mistaken view of how the market works.

Henderson's Law also holds for books, movies, and TV shows. Take Robin Hood. We hear that he was a hero because he robbed from the rich to give to the poor. Robin Hood would be a clear-cut exception to Henderson's Law if the rich he robbed had earned their money. But invariably Robin Hood's rich victims are those who themselves robbed first. Robin Hood *reclaimed* from the rich and gave back to the poor.

I have not yet found an exception to Henderson's Law, and not for lack of trying. When I think I have one, it turns out either to be consistent with libertarianism or to lack a hero.

Take *Norma Rae*, a movie about a worker at a cotton mill who grows out of her low self-image and who courageously and effectively fights to unionize the mill. The movie qualifies as heroic. It is also consistent with libertarian premises. The turning point for the union's success comes when Norma Rae's father—who also works at the mill—dies because his employer refuses to let him sit down during a heart attack. The employer clearly violated an implicit contractual agreement: I know of no advocate of freedom who thinks that when you agree to work for someone, you also agree not to take a break during a heart attack.

Of course, when the union forms, the large minority of workers who voted against it will be represented by the union against their will. Forcing a bargaining agent on these people and forcing them to pay dues as well violates the workers' right to choose their own representatives, not to mention the employer's rights. But nowhere does the movie even hint that those who oppose the union will be forced to join. If the movie had covered this issue, then Norma Rae's heroism would not have been so clear-cut. The only way the director and scriptwriter could keep the movie both heroic and prounion was to mislead moviegoers about the antifreedom aspects of unions under American labor law. American labor law, not *Norma Rae*, is antifreedom.

*Country* is another apparent exception that turns out to be consistent with Henderson's Law. This movie portrays as a hero a woman, played by Jessica Lange, who tries to hold on to her farm and to prevent the government from foreclosing on it. I could nitpick and say that the movie is not antibusiness because the government, not business, is foreclosing. But I won't, because one can easily imagine a business doing the same thing. The more relevant points are that the government is not portrayed as clearly villainous and that the heroine attempts to hold on to her farm within the law. The neighbors help out, not by breaking laws or by violating property rights, but simply by refusing to buy her assets, a very creative use of their freedom.

Of course, in the late '60s many antibusiness movies were hostile to freedom. But they were also antiheroic, and therefore not exceptions to Henderson's Law.

Henderson's Law gives me hope. That heroic movies are based on or consistent with the principles of freedom means that millions of people can see as heroic only someone whose actions do not violate others' rights. This shared belief in freedom is a huge common ground. What remains, if believers in freedom wish to persuade people, is to show them this common ground and then to address the factual issues on which we disagree, the main one being whether corporations can easily rip people off without the government's help. Those who love heroes love freedom.

*Contributing Editor David R. Henderson, an economics professor at the Naval Postgraduate School and a former White House economist under President Reagan, loves heroic movies.*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## Man Most Feared

BY STEPHEN CHAPMAN

**The Boss: J. Edgar Hoover and the Great American Inquisition, by Athan G. Theoharis and John Stuart Cox, Philadelphia: Temple University Press, 489 pages, $27.95**

"In framing a government that is administered by men over men," wrote James Madison, "the great difficulty lies in this: You must first enable the government to control the governed; and in the next place, oblige it to control itself." The difficulty was greater than he imagined. For all the care the framers of the Constitution took to constrain the federal government, it has shown great energy and ingenuity in scaling those walls—as in the case of J. Edgar Hoover.

Hoover is best remembered today for his secret investigations of dissident groups during the Vietnam War era, but Athan Theoharis and John Stuart Cox show that his abuses of individual rights began four decades earlier. Trampling on constitutional freedoms is the consistent theme of his service in government, starting with a $1,200-a-year intelligence clerkship in 1917. He soon was working in the alien registration section, which had the job of deporting alien political radicals. When World War I ended, he became a special assistant to Atty. Gen. A. Mitchell Palmer—playing a key role in the mass arrests of left-wing immigrants that would live in infamy as the "Palmer raids."

In 1924, Atty. Gen. Harlan Fiske Stone named Hoover head of the department's Bureau of Investigation, later to be known as the FBI. The wonder is that the appointment was made by an attorney general who declared that "a secret police may become a menace to free government...because it carries with it the possibility of abuses of power which are not always easily apprehended or understood." Then as later, Hoover proved highly adept at ingratiating himself with those he needed.

Despite his Republican ties, he survived the ascent of a Democratic president in 1933. In the following years he engineered a dramatic enlargement of the bureau and established his reputation as a master crime fighter—dubbed "the most feared man the underworld has ever known." The reputation was not entirely baseless: Hoover is generally given credit for professionalizing the bureau, consolidating and expanding its fingerprint files, and compiling huge mounds of crime data. But it was about three parts hype to one part substance.

World War II provided a matchless opportunity for Hoover to expand the reach and size of the bureau, which increased its number of agents more than fivefold in five years. In 1940, Franklin Roosevelt signed a secret order allowing wiretapping of anyone suspected of "subversive" activities—despite a 1934 ban on wiretapping of any kind. Hoover also got approval to compile a list of people who might warrant "custodial detention" at some point. When a new attorney general ordered an end to such investigations, Hoover continued them secretly, as subsequent revelations showed.

This constant monitoring of the politically suspect became one of his obsessions. "Beginning in 1941," write Theoharis and Cox, "virtually every American radical group active in the 1940s and thereafter was the target of an FBI tap, bug, or both. More specifically, virtually every left-of-center civil rights organization and labor union was tapped and bugged." The agency also frequently burglarized the offices of such organizations.

In the years following World War II, Hoover performed diligent service to the Red Scare, providing information to the House Un-American Activities Committee and Sen. Joseph McCarthy. In the

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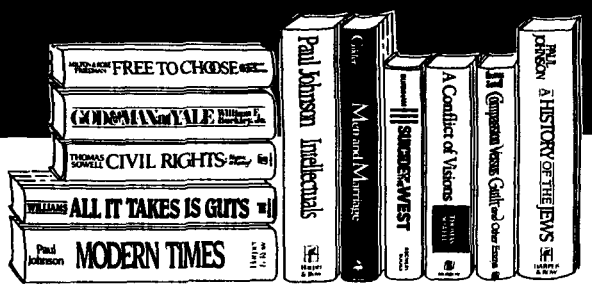


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1960s, he tried to discredit Martin Luther King, Jr., by leaking information gathered from illegal wiretaps and bugs. When opposition to the Vietnam War escalated, the agency turned to monitoring and harassing the New Left.

The recurring question is how Hoover managed to get away with so much. One answer is that his policies often had wide public support. The anticommunist fevers of the 1940s and '50s were not limited to the upper reaches of government. Martin Luther King may be revered today, but he evoked anger and anxiety in most Americans during the civil rights era.

Hoover also knew how to serve the political needs of his superiors, who found his information too useful to question its source. On the matter of bugging rooms to gather information, say Theoharis and Cox, Hoover had a free hand because no one wanted to shackle him. Several attorneys general, including Robert Kennedy, refused "to exercise their authority and to insist on being fully informed about the FBI's practices. Aware of the legal questions posed by resort to this technique, these attorneys general preferred being uninformed....The Director, in turn, welcomed this indefinite waiver of accountability and, in time, came to regard it as his right." Among the tasks Hoover handled at Richard Nixon's request was reporting on the alleged homosexual tendencies of some Washington reporters.

Hoover managed to deter scrutiny from Capitol Hill by amassing reams of embarrassing information about members of Congress. One Agent recalled that when one senator was picked up drunk with a woman who was not his wife, the FBI let him know the next day that it had all the incriminating information. Hoover's reputation for snooping was enough to intimidate most members.

Finally, on the occasions when his superiors tried to control him, Hoover found ways to foil them. One was simply to keep doing what he had been ordered not to do—and keep it secret. Many records were kept in the Orwellian "Do Not File" files, which were omitted from the FBI's records and maintained confidentially in an assistant director's office. Since they were not categorized as "files" by Hoover, he could deny keeping any such files. And it was almost impossible for anyone to expose the lie. By the time Hoover died in 1972, the agency had dossiers—official and unofficial—on 25 million people.

*The Boss* is not the definitive biography of Hoover. Though exhaustively researched, it is written in a heavy-handed, polemical fashion that offers no real insight into the director's character. The authors' amateurish psychoanalysis almost implies that Hoover was homosexual, while piously denying any such suggestion. The connections they draw between his personality and his policies rarely rise above the absurdly speculative. For example: "To a young man of no sexual experience and fanatical loyalty to a late Victorian code of honor, [Emma] Goldman must have appeared a witch and a whore all wrapped up in one."

Opinions like that, unlike the evaluations of Hoover's professional life, are severely lacking in evidence. Trying to explain the psychological origins of Hoover's beliefs and behavior is obviously beyond the authors' competence. It is also unnecessary. When they stick to the facts, their indictment of Hoover is powerful enough. By sifting through the mass of material about his record in office, Theoharis and Cox have been able to document a lifelong effort, largely successful, to advance personal and institutional power at the expense of individual rights. In his determination to protect the American way of life, Hoover did his best to eradicate the features that make it worth preserving.

*Stephen Chapman is a syndicated columnist and editorial writer for the* Chicago Tribune.

## Nothing Fails Like Success?

BY KARL ZINSMEISTER

**Resentment Against Achievement: Understanding the Assault upon Ability By Robert Sheaffer, Buffalo, N.Y.: Prometheus Books, 198 pages, $19.95**

Recent years have seen a spate of books on social decline. Allan Bloom pointed to moral relativism as a source of cultural decay. Robert Bellah and company fretted over decadent individualism. Paul Kennedy cautioned about the long-run effects of military spending imbalances.

A sleeper companion to these much-touted books is a somewhat less ambitious but duly intriguing and original contribution by a mathematician and Silicon Valley software developer named Robert Sheaffer. In *Resentment Against Achievement* Sheaffer presents a quirkily interesting alternative thesis to explain why nation-states go into eclipse.

"Throughout recorded human history, the ebb and flow of the love of achievement—and the resentment against its success—have been major forces behind the rise and fall of civilizations," Sheaffer writes. "While a civilization is in ascendance (which is to say, when the morality of achievement has the upper hand), people tend to derive their cultural and social ideals from the class above them....But if and when resentment-morality gains the upper hand, civilization enters a slow decline....lower-class values begin to spread upward." "If the achievers," he argues, "begin to identify more strongly with the complaints of these losers than with the accomplishments of people like themselves, they will become paralyzed by guilt, and the future will look bleak."

Sheaffer doesn't tie his argument closely to contemporary American events, but many readers will recall the last month of the recent presidential campaign, when Michael Dukakis discovered resentment politics. The smug "experts" who take scientific polls show me trailing, said Dukakis, and "the rich are already popping the champagne corks in

their penthouses." But come election day, he warned, the righteous masses will deal a blow to these highfliers.

This mix, which the media called "populism," was absolutely classic resentment rhetoric—attacking the twin demons of financial success and intellectual achievement. And Dukakis wielded it as a potent weapon, sharply closing the gap on George Bush.

But resentment and revenge, Sheaffer says, are ultimately fruitless impulses. Successful societies, he argues, are those in which the less successful aim to *imitate*, rather than pull down, the high achievers.

Sheaffer reinterprets a wide range of social phenomena—from the causes of poverty to Soviet-American relations to environmentalism to rock music—in terms of resentment against achievement. "Poverty," he says, "is not 'caused' or created: it is the default condition of the human race, the absence of advanced economic development....It is wealth that must be 'caused.' " His definition for the latter term is concise: "In a capitalist, free society, wealth is the consequence of a lifetime of commitments honored." Achievers tend to assume, Sheaffer states, that people who fail "were never offered a chance for success. The notion that the poor are simply living in accordance with their lower-class values never occurs to achievers."

Sheaffer argues against equality. "If all must be equal, then why should anyone ever strive to succeed? And if no one strives to succeed, then what becomes of civilization?"

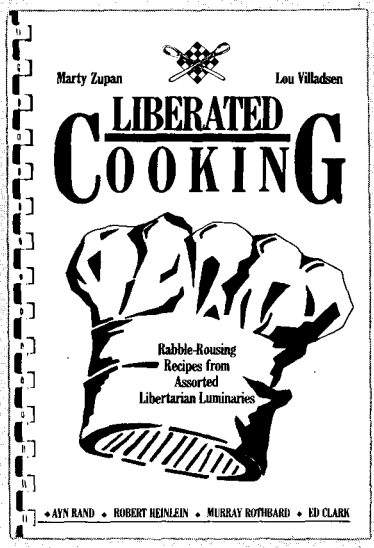
He makes the case that the two main institutional reflections of achiever-resentment today are socialism (obviously) and (less obviously) Christian morality. He presents some trenchant criticism of Christianity's celebration of wretchedness ("Blessed are the poor") and hostility toward achievement (harder for a rich man to enter heaven than for a camel to pass through the eye of a needle).

Unfortunately, he mixes this with cartoonishly crude caricatures of religious belief. Sheaffer's religion is all miracles and fanaticism, a virtual synonym for ignorance and lassitude. Just one example of the inadequacy of such a characterization is Sheaffer's own citation of Fyodor Dostoevsky as a great achieving genius, overlooking the fact that Dostoevsky's writing is entirely suffused with his profound religiosity.

Not only here but elsewhere, Sheaffer has a tendency toward overassertion. He draws few distinctions between forms and grades of achievement. For him, achievement is essentially interchangeable with income level. Noneconomic successes and accomplishments (like, say, raising happy children) do not merit his consideration. Nor do situations in which income fails to represent real value. Obviously, the fact that Joyce Brothers and Jackie Collins sell 200 times as many copies of their books as does Robert Sheaffer doesn't mean their work is 200 times more valuable. The relative incomes of rock stars and engineering instructors are not faithful reflections of their achievements and contributions to society. And I would argue that there is even some basis for resentment in such instances.

**J.R. Ewing: Would wage slaves rather become J.R. or sack his estate?**

It doesn't seem fair to reduce *all* objections to existing reward structures to "childish complaints emanating from adult bodies." (Sheaffer believes the roots of achiever-resentment lie in childhood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chafings against adult control.) By failing to differentiate more carefully and acknowledge occasional distortions in our existing approximation of meritocracy, he weakens what is in the main a compelling thesis.

Moreover, a close examination of achievement really ought to grapple with some hard cases. What if a high-achievement ethic leads individuals to abandon their children, spouses, friendships? How are we to temper moneymaking when it threatens cultural heritage, historical treasures, or community ethics? (A very successful developer recently tried to build a nice shopping center in the midst of a Manassas battlefield, site of thousands of solemn American deaths.) Surely not every community verdict against "achievement" springs from resentment.

And I am not sure that Sheaffer accurately identifies the locus of achievement resentment. He points to "proletarian values" and the lower classes. Yet resentment, particularly as an ideological force, may be even more deeply rooted among certain of our highest-achieving classes—such as professors, artists, bureaucrats, and others who feel underappreciated in an individual-achievement society.

Karl Marx bent the term *proletarian* to describe industrial workers who lived exclusively by their labor. In the modern context, workers who get out of bed every day for hourly wages are not powerfully resentful. They are generally more interested in becoming J. R. Ewing than in sacking his estate. History shows that that proletariat is not the revolutionary class.

The original Roman meaning of *proletariat* was the nonpossessing, basically nonworking, class (heavily dependent upon the public dole) that served the state only by producing offspring (proles). That group, to which today's urban underclass is in many ways analogous, is indeed a resentful, and dangerous, class. But history again shows that unless it acts in concert with members of upper classes, this faction cannot seriously threaten societal productivity and order.

I therefore look toward alienated parties within the achievement classes themselves as the primary promulgators, apologizers, and transmitters of any resentment ethic that has force sufficient to impair social functioning. Resentment may be a primitive impulse of vulgar origins, but it flourishes only when it is fed and sustained from above. It is a pity that Sheaffer didn't turn his spotlight on upper-class achievers themselves and examine how some of them lose contact with the values and principles by which they attained their own success and society's prosperity.

Just the same, there is much to counterbalance the soft spots in this book. Its clear, brave, and timely message will engage anyone concerned with individual excellence and cultural achievement.

*Karl Zinsmeister is a Washington, D.C.–based writer and adjunct research associate at the American Enterprise Institute for Public Policy Research.*

## Those Mischievous Political Philosophers

BY EDWARD BANFIELD

**The Conquest of Politics: Liberal Philosophy in Democratic Times**
**By Benjamin Barber, Princeton: Princeton University Press, 220 pages, $25.00**

One should not infer from the title and subtitle of *The Conquest of Politics* that the author thinks politics has been conquered by liberal philosophy. Far from it. For him, politics refers to the activities that arise out of differences of opinion and interest among citizens. It is therefore an ineradicable feature of the human situation. Since World War II, some moral and legal philosophers have tried to assimilate it to philosophy; their efforts have failed, the author says, because they have applied a method to a subject for which it is radically unsuited.

Benjamin Barber is a much-respected professor of political science at Rutgers University. For many years editor of *Political Theory*, an international quarterly, he is a strenuous advocate of direct, or "participatory," democracy. Some of his earlier work draws on the American pragmatism of Charles Peirce, William James, and John Dewey.

In the present work, he is in the tradition of Aristotle, for whom the conduct of political life, as well as the understanding of it, is a matter of practical judgment, not of theory. Barber may be unduly optimistic in thinking that citizens—even those of the kind he described in an earlier book as "engaged"—can manage the deep divisions that exist in modern life. But he has no trouble showing that they can find no guidance in contemporary theory.

The books in Barber's direct line of fire are John Rawls's *A Theory of Justice*, Robert Nozick's *Anarchy, State, and Utopia*, Bruce Ackerman's *Justice in the Liberal State*, and Alasdair MacIntyre's *After Virtue*. Two other theorists—Bertrand Russell and Michael Oakeshott—get a chapter each, although neither quite fits the category of error on which the guns are trained.

All of the works under discussion are contributions to technical philosophy, which is to say that they are hard going for one not trained in philosophy or used to thinking at a high level of abstraction. What Barber says of one—that only a fool would try to summarize its argument—is in varying degrees true of the others as well. It would be no less foolish in a brief review to try to summarize, let alone evaluate, his criticisms of their arguments. Besides, his main point in every case is that the author says nothing that can be of practical importance to ordinary people—that is, to citizens as opposed to philosophers.

Barber judges Rawls's *A Theory of Justice* to be "the most impressive, one might even say noble," of the postwar crop of Anglo-American political philosophy. But after 36 pages of analysis, he concludes that Rawls never comes close to genuine politics: "A theory of justice

that sees nothing to choose between capitalism and socialism," he writes with characteristic politeness, "would seem to have little to offer to citizens."

Nozick's book—the *locus classicus* of the Reagan era's "aggressive free market privatism"—is probably as repellent to Barber as Rawls's book is attractive. But his final judgment of it is essentially the same: the book is "irrelevant"; Nozick "plays games ingeniously, but playing games and engaging in politics are distinctive projects."

No one, Barber says, has been more adept than Ackerman at combining a philosopher's flair for formal argument with a citizen's concern for real politics. Nevertheless, "the end results are as sterile and unpolitical as the Original Position or the Greatest Good for the Greatest Number."

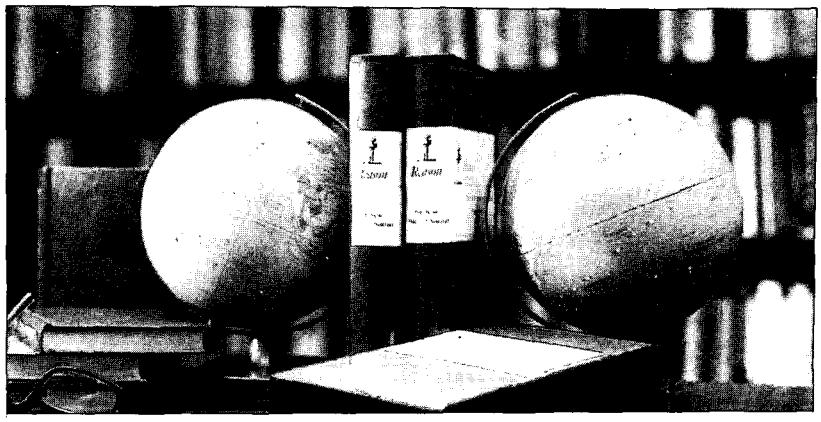
For MacIntyre, whose *After Virtue* is an attempt to reconstruct Aristotle's ethics minus its obsolete biological teleology, Barber seems to have little patience. He gives him only 15 pages and takes him to task for his "lugubrious rejection of all that is modern." "There are no answers in *After Virtue*, only a sermon of despair," he concludes. "MacIntyre's first aid kit is empty."

Oakeshott, like MacIntyre a critic of liberalism, is as skeptical as Barber himself of efforts to bring politics within the fold of formal philosophy. All the same, *On Human Conduct* gives the reader no advice on defining or remedying injustice. If MacIntyre's first aid kit is empty, Oakeshott, it appears, has no kit at all.

Each chapter has a well-chosen epigraph at its head. The one above the last chapter, which consists of the author's reflections on political judgment, is taken from Daniel Webster: "Governments are instituted for practical benefit, not for subjects of speculative reasoning." That conveys Barber's sense of the matter. A political question, he writes, "takes the form 'What shall we do when something has to be done that will affect us all and we wish to be reasonable, yet we disagree on means and ends and are without independent grounds by which we might arbitrate our differences?' "


# The Capitalist Revolution

*... now in video*



Back in 1947, the heyday of central planning and socialism, F. A. Hayek gathered a small band of writers and thinkers at Mont Pelerin in Switzerland. Their "mission impossible" task: to reverse the worldwide trend toward socialism and restore the vitality of classical liberal ideas of free trade, individualism, and free markets.

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"The New Enlightenment" was produced by London's Diverse Productions, in association with the Reason Foundation. It was broadcast last December on Britain's Channel 4—and quickly became the country's most talked about television series. Denounced by the left-wing dailies but taken very seriously by other media, it was termed "the most exciting and important non-fiction programme on television" by the *Financial Times*.

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The problem is one of conflict, not of knowledge, and it cannot be dealt with by applying abstract standards—not only because there are no standards to which all adhere but also (a point Barber does not stress) because even if there were agreed-to standards, there would be no purely reasonable way of determining what they mean for a particular concrete case. Where philosophy stops, "experience, history, common sense, and common action begin." Recommended readings for the citizen are the *Federalist Papers*, Madison's "Notes on the Constitutional Convention," and Tocqueville, but in the last analysis it is up to citizens to work things out as best they can by some sort of bargaining process.

Without philosophical foundations, politics may destroy liberal values. Of this Barber is well aware. He is not a relativist, and his case is not against philosophy as such but only that sort of philosophy that claims to establish certainties on the basis of prepolitical knowledge, the metaphysics of either rationalism or empiricism. The objection to such efforts is not simply that they lead to nothing of practical value. "To be unable to think politically in a major book nominally about the state," Barber says, "is in fact no small mischief in troubled democratic times." Presumably the mischief is that such books tend to weaken or destroy the politician's and citizen's understanding of the necessity of bargaining and compromise, their confidence in what experience has taught them and what common sense tells them, and their distrust of so-called experts.

Barber is surely right in concluding that we need better citizens rather than philosophers. He may, however, be overly optimistic about what even good citizens can achieve in the modern world, a world in which moral conflicts seem to be growing deeper and reliance on reason as a means of coping seems to be more widely repudiated. In relation to demand, political judgment may never have been in such short supply as it is now.

*Edward Banfield is professor emeritus of government at Harvard University.*

## Trillion-Dollar Welfare State

BY THOMAS J. DILORENZO

**On Borrowed Time: How The Growth in Entitlement Spending Threatens America's Future**
**By Peter G. Peterson and Neil Howe**
**San Francisco: Institute for Contemporary Studies, 430 pages, $24.95**

Capitalism's critics have long held that private entrepreneurs are too short-sighted, with an excessive concern for the next quarter's balance sheet. Because such myopia may have negative economic consequences, critics urge that the market system be placed under greater political control "in the public interest."

This criticism of the market system never did hold much water. It doesn't explain, for example, why so many businesses can be short-sighted year in and year out and yet survive for decades (without government subsidies). It also ignores the role of market forces, such as the market for corporate control, in providing managers with long-term incentives.

The biggest shortcoming of such criticism is its failure to acknowledge that *politics* is actually excessively myopic, with a focus never any more far-reaching than the next election. Any politician overly concerned about the future of America will have great trouble surviving in office, for a successful political career requires that *current* constituencies be pleased, often at the expense of future generations.

*On Borrowed Time*, by Peter G. Peterson and Neil Howe, exposes how federal politicians have "mortgaged our future" by promising an extensive package of entitlements to mostly middle- and upper-income Americans without providing a means of paying for them. Citizens who read the book cannot help but laugh the next time they hear proposals for lengthening the time horizon of American business by subjecting it to greater political control.

Peterson, whose numerous articles on budget issues and international economics put him in the ranks of influential "pop" intellectuals, and Howe, senior fellow of the Retirement Policy Institute, present a sobering account of how "government...keeps massive, unfunded pension liabilities off-the-books, where their real costs are hidden." Government has already saddled taxpayers with "10 trillion in unfunded federal benefit liabilities above and beyond our official national debt." To pay for all these promised benefits, taxes will take as much as half of every worker's paycheck by the middle of the next century, according to Peterson and Howe.

The authors argue that current entitlement spending is eating up the country's capital stock and thereby undermining hopes for posterity. What's worse, most entitlements do not help the poor and the needy but instead benefit the affluent and politically effective middle class. "Most of the redistribution of income is from middle-income people to other middle-income people."

Peterson and Howe also debunk the entitlement myth that "the elderly are, by definition, needy and dependent." For the most part the elderly are much better off financially than the average nonelderly family. The former have more assets, fewer liabilities, and in many cases, more income. As economist Gordon Tullock has often said, the main reason for government redistribution of income is that the recipients want the money!

If the system of entitlements is not altered, say Peterson and Howe, we are in for a "fiscal nightmare." Should we continue on the same spending course "until the year 2040 our federal budget will be consuming 86.1 percent of GNP, with entitlement spending and interest on the national debt accounting for more than three-quarters of the total."

A big reason for this scenario is that we are an "aging society." The future will see more and more retirees living longer and longer and receiving more and more government subsidies. At the same time, the entitlements will be almost impossible to pay for without a dramatic increase in productivity. Fueling the future explosion in entitlement spending is health care hyperinflation, Social Security payments, and particularly, the federal pension system.

Research by economist Sharon Smith has shown that public employees' wages are as much as 40 percent higher than wages of private-sector employees with the same age, education, and experience. On top of that, Peterson and Howe show that federal pensions are far more lavish than private retirement benefits. This is another manifestation of the shortsightedness of politics. There may be taxpayer resistance to raising taxes *now* to finance higher public employee wages, so politicians impose tax liabilities on future generations by passing out patronage in the form of lavish retirement benefits.

What should be done about all this? Peterson and Howe offer some suggestions for reform, but they all amount to minor tinkering with various welfare programs.

While their reform proposals are uninspiring, their explanation for the present state of affairs, set forth in the final chapter, is downright bizarre and out of character with the rest of the book. The title of the chapter, "The Failure of the Libertarian Welfare State," makes about as much sense as "jumbo shrimp," "military intelligence," and other oxymorons.

The real problem with the welfare state, write Peterson and Howe, is that it "has become 'libertarian'....its foundation has been shifted to private, contractual arrangements with government." Describing the system as based on claims of "individual rights to debt-financed consumption," the authors call it "the new libertarianism."

Of course, they have it all backwards. The welfare state is a gross *violation* of individual rights made possible by majoritarianism run amok. It is the welfare-state philosophy embraced even by Peterson and Howe that is really the root of the problem. They bemoan, for example, a lack of "collective goals or stewardship" by government and romanticize the New Deal and Great Society spending programs as efforts to protect widows, orphans, and the disabled against "the worst vicissitudes of modern capitalism." They believe all these programs originally served "the common interest" but were corrupted by the spread of libertarianism!

The authors are most certainly wrong when they further conclude that the "ideologies of the left and right are now irrelevant to the issues at stake." Some kind of ideological or philosophical vision, even if it isn't explicit, necessarily underpins all public policy. Ideology determines the path government policy will take in the future. Are we to continue to expand the welfare state, with only marginal tinkering such as that suggested by Peterson and Howe? Or is fundamental reform, such as privatizing Social Security and deregulating and privatizing the health care sector, the more appropriate policy route? The former can only be justified by a collectivist ideology, in which individual sacrifice and redistribution of wealth is made for the good of the "public." In contrast, the latter set of policies requires an individualistic ideology that respects individual rights and responsibilities.

*On Borrowed Time* does a good job of exposing some of the worst failures of the American welfare state. But the authors' philosophical confusion keeps them from offering anything in the way of fundamental reform.

*Thomas J. DiLorenzo is Scott L. Probasco, Jr., Professor of Free Enterprise at the University of Tennessee, Chattanooga.*

## Book Hints

Samuel Brittan's seminal 1973 work, *Capitalism and the Permissive Society*, explored the relationship of capitalism to personal liberty. Like Friedrich Hayek's *Constitution of Liberty*, the book "asserted that there was a strong link between free-market capitalism and freedom in a wider sense." At the time Brittan wrote his book, the reputation of capitalism was in disrepair, above all among intellectuals. Fifteen years later, capitalism has been resurrected. Yet, as Brittan remarks, "that case is now almost always put forward in terms of prosperity, efficiency, or 'accepting hard realities.'"

Reemphasizing the connection between capitalism and freedom, a new edition of Brittan's work is now available under a new title, **A Restatement of Economic Liberalism** (Atlantic Highlands, N.J.: Humanities Press International, 346 pp., $15 paper). Though most of the text remains unchanged from his earlier work, Brittan has added an incisive account of recent history, including the Reagan and Thatcher eras. And the original text itself builds timeless arguments to show that capitalism augments freedom.

Looking at economics and liberty in a different context is **Liberty, Property, and the Foundations of the American Constitution** (Albany, N.Y.: State University Press, 181 pp., $39.50/12.95), edited by Ellen Frankel Paul and Howard Dickman. Joining current debates about constitutional interpretation, the authors in this collection assess how the framers viewed property rights and economic liberties.

Another collection, **Explorations into Constitutional Economics** (College Station, Tex.: Texas A&M University Press, 429 pp., $48.50) pulls together diverse essays, some not previously published, by Nobel laureate James Buchanan. The essays, compiled by Robert Tollison and Viktor Vanberg, cover a wide range of topics, from the theoretical to the concrete. Tollison and Vanberg summarize Buchanan's thought by noting that "the modern Constitutional Economics of James Buchanan, like the classical political economics of Adam Smith, urges the economist to inquire how the rule of the political order and other institutional constraints under which the economy operates affect economic processes." **—L. S.**

# BRICKBATS

Kids, don't throw away those fake I.D.s that make you look older. You may need them someday. To drum up business for his Wayne, New Jersey, drug store, pharmacist Timothy Brophy offered prescription drugs below cost during a 30-day sale. The state charged him with violating the law that prohibits discounting prescriptions to people under age 62. Now the state supreme court must decide whether it's okay to give a discount to someone who's 62, but "grossly unprofessional conduct" if the customer is 61.

Read the Bible. It will set you free. That's what two inmates of a Maryland jail found out when they used the good book to pick the lock on their cell door. "The Bible cover is pliable and yet strong enough to jimmy the lock," says Sheriff Philip McKelvey. "The locking mechanism itself wasn't working properly, and it should not have been able to be jimmied." Freedom was brief, though, as the felons were caught the next day. They could receive 10 more years to continue their religious studies.

Two members of Feminists Fighting Pornography were arrested for violating New York's antiporn law, which they claim is too weak. To help collect petition signatures and donations, the women displayed a picture from a magazine as an example of the kind of thing they want banned. They refused to take it down when residents complained, and police arrested them for violating the state law on public display of sexual material and for third-degree obscenity.

A Connecticut state law requires that 1 percent of the construction costs of public works projects be devoted to artistic improvements. State Rep. Ruth Fahrbach didn't think it was such a bad law, until she noticed that plans for an 800-bed medium-security prison included commissioned artworks worth more than $750,000. "We don't decorate the walls of our prisons with art," she argues. "We have to make a distinction of what is necessary and what is not." She has proposed an amendment to the law, but the bleeding hearts complain that the poor inmates need a dash of color for the their drab prison walls. Meanwhile, Gov. William O'Neill has signed a $247-million deficit-bailout bill that calls for higher taxes on alcohol, cigarettes, and businesses.

The Bush administration has at least one honest cabinet member. Newly appointed Interior Secretary Manuel Lujan admitted to reporters that he doesn't understand how the federales sell and lease land for coal mining and offshore oil drilling. The admission about a major responsibility of his department came after Lujan flip-flopped all over the place during a 35-minute press conference. "I don't know," he finally conceded. "Scratch whatever I said about all that, because I didn't know what I was talking about. I'm just developing as I talk here. I shouldn't be doing that. That's how I get myself into trouble."

Michael Gianakos contends he doesn't owe his $6,700 American Express bill because he used his charge card to pay for prostitutes. "It is axiomatic that a contract which has as its purpose an underlying illegality cannot be enforced by either of the parties," says Gianakos's lawyer. Gianakos racked up charges for "champagne" at the Club Pussycat and the Jewel Box in downtown Baltimore. If a judge buys Gianakos's legal argument, a lawyer for American Express worries that "everyone is going to be lined up [outside the club] with their charge cards in their hands."

The IRS manual concedes that tax collections might drop following a nuclear attack. But once the emergency is over, "operations will be concentrated on collecting the taxes which will produce the greater revenue yield."

**—Mark Edward Crane**

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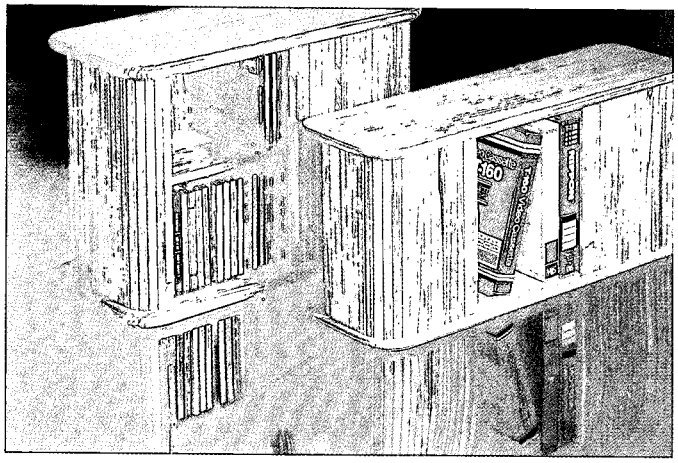

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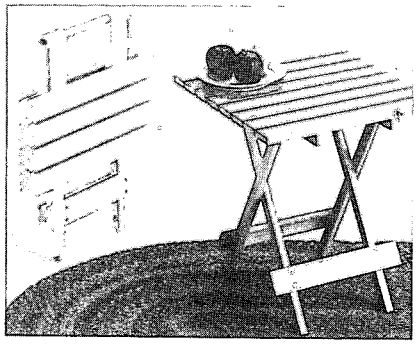

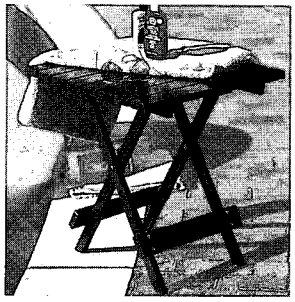

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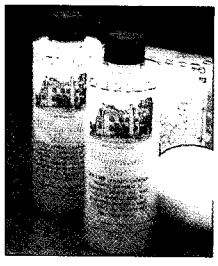

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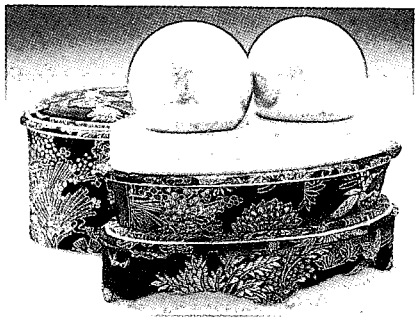

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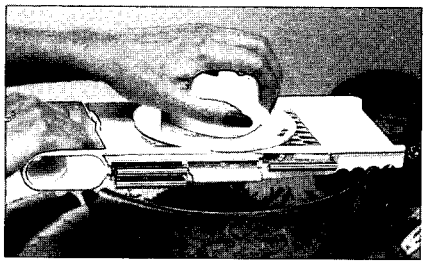

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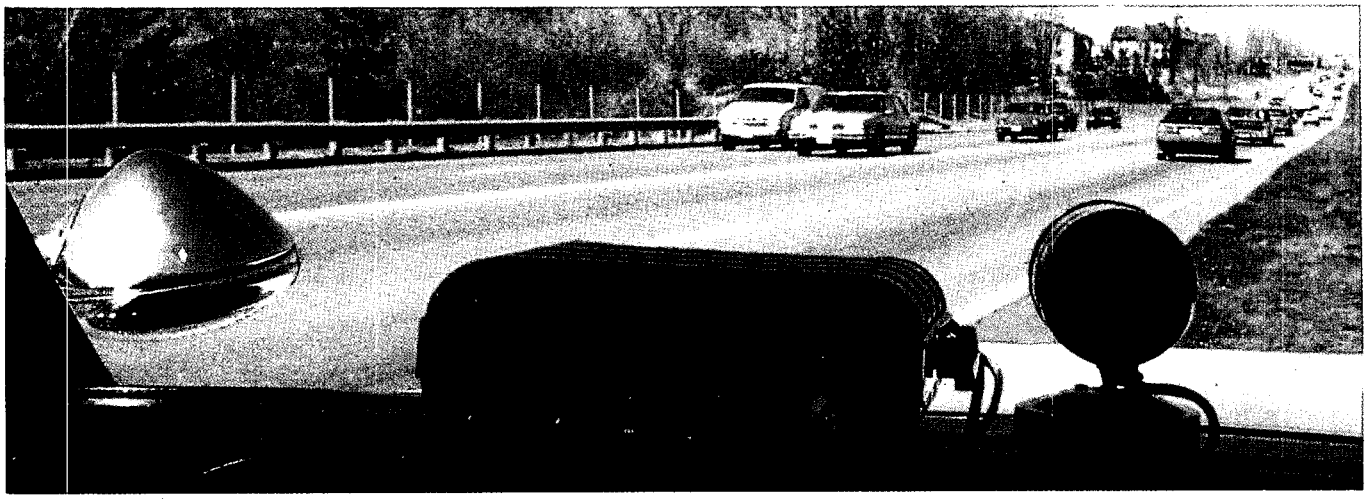

Traffic radar doesn't say which car is being clocked, it merely flashes a number. The radar operator must then try to determine which vehicle produced the reading.

# Why radar makes mistakes. How to protect yourself.

Although nine different errors have been documented for traffic radar, the most common source of wrongful tickets is mistaken identity.

It's hard to believe, but traffic radar does not identify which vehicle is responsible for the speed being displayed. It shows only a speed number and nothing else. The radar operator must decide who is to blame.

**How radar works**

The radar gun is aimed at traffic and it transmits a beam of invisible radar waves. Each moving object within range reflects these invisible waves back to the radar gun. Using the Doppler principle, the radar calculates speed from the reflected waves.

**Traffic radar is blind**

Traffic radar works differently from military, air-traffic-control, and weather radars. The others use rotating dish antennas in order to track many objects simultaneously.

Traffic radar uses a far smaller, far cheaper, gun-shaped antenna. This simplification requires traffic radar to ignore all reflections but the strongest. The number displayed is speed calculated from the strongest reflection.

**The best guess**

Remember, these reflections are invisible. Truck reflections can be ten times stronger than car reflections. How can the operator know for sure which vehicle is responsible for the number?

The truth is, he can't be sure in many cases. The result is mistaken identity. You can be ticketed for somebody else's reflection.

**Self defense**

The only way to defend yourself against these wrongful tickets is to know when radar is operating near you. Others agree with this method. In his verdict upholding a citizen's right to use a radar detector, Judge Joseph Ryan, Superior Court, District of Columbia, wrote:

*"If government seeks to use clandestine and furtive methods to monitor citizen actions, it can ill afford to complain should the citizen insist on a method to effect his right to know he is under such surveillance."*

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